

51st Annual Report
for the year ended
March 31, 2002



Contents

Highlights 2

Chairman's Message 4

President's Message 6

Year In Review 9

Financial Review

**Management's Discussion and
Analysis 30**

Management Report 41

Auditors' Report 42

**Consolidated Statement
of Income 43**

**Consolidated Statement
of Retained Earnings 43**

Consolidated Balance Sheet 44

**Consolidated Statement
of Cash Flows 46**

**Notes to the Consolidated
Financial Statements 47**

**Consolidated Financial Statistics —
A 10-year overview 62**

**Operating Statistics —
A 10-year overview 63**

**Members of the Board and Manitoba
Hydro Senior Officers 64**

**Corporate Profile and
Vision, Mission and Goals 65**

**Maps of Major Electric & Gas
Facilities 66**

Glossary 68

Cover: Several First Nations have been full participants in the planning discussions concerning future hydroelectric projects. Pictured here, the future site of the Wuskwatim Generating Station, at the outlet of Wuskwatim Lake, with Taskinigup Falls on the Burntwood River in the foreground.

Highlights

Manitoba Hydro announced an offer to purchase Winnipeg Hydro from the City of Winnipeg.

No electricity rate increase in 2001-2002, marking the sixth consecutive year of no rate increases for most customer groups. For industrial customers, rates have not increased in 11 years.

Consolidated Financial Results

in millions of dollars

	2001-2002	2000-2001	change (%)
Gross revenues			
Electricity sales within Manitoba	797	789	1
Extraprovincial electricity sales	588	480	23
Natural gas sales	479	504	-5
Total	1 864	1 773	5
Expenses			
Electrical	1 164	1 002	16
Gas (including cost of gas sold)	486	501	-3
Total	1 650	1 503	10
Net income	214	270	-21
Retained earnings	1 302	1 088	20

Electrical Operations

in billions of kilowatt-hours

	2001-2002	2000-2001	change (%)
Generation - Integrated system	32.6	32.7	-
Energy sales - Manitoba customers	20.5	20.1	2
Extraprovincial customers	11.8	12.1	-2
Manitoba peak load			
in thousands of kilowatts	3 760	3 637	3

Gas Operations

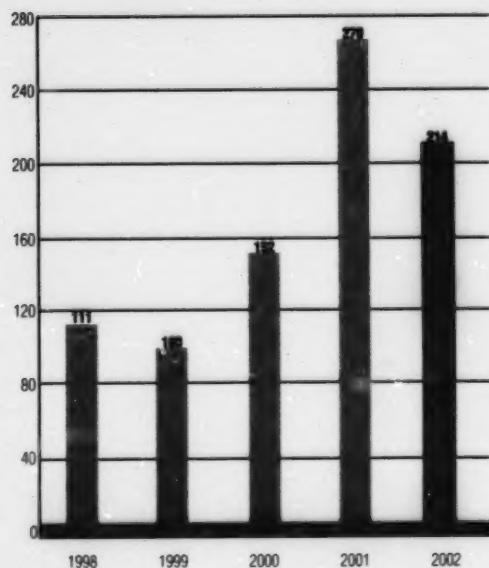
in billions of cubic feet

	2001-2002	2000-2001	change (%)
Gas sales			
Residential	22.8	24.7	-8
Commercial/Industrial	31.7	34.4	-8
	54.5	59.1	-8
Transportation	17.7	17.6	-
Total	72.2	76.7	-6

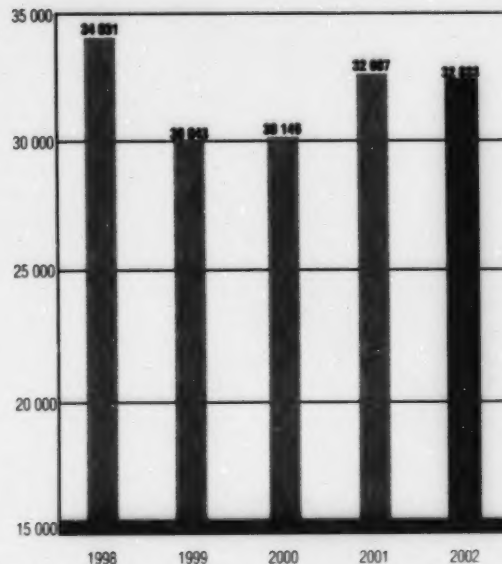
New all-time record of \$588 million in export sales was achieved, up 23 per cent from last year.

A new historical peak demand for electricity was established at 3 760 megawatts on January 29, 2002, an increase of 3.4 per cent from the previous all-time high peak of 3 637 on December 12, 2000.

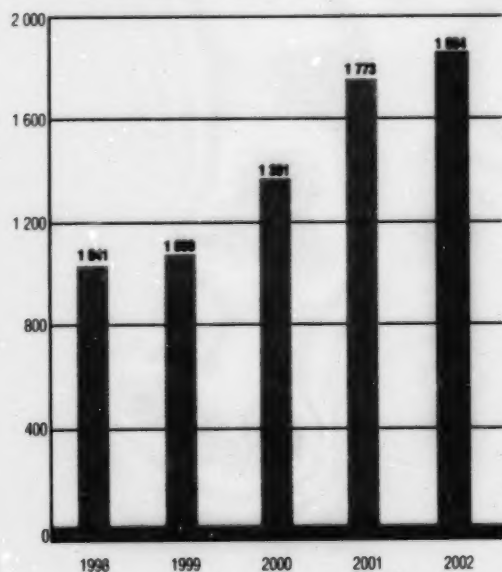
Net Income
millions of dollars



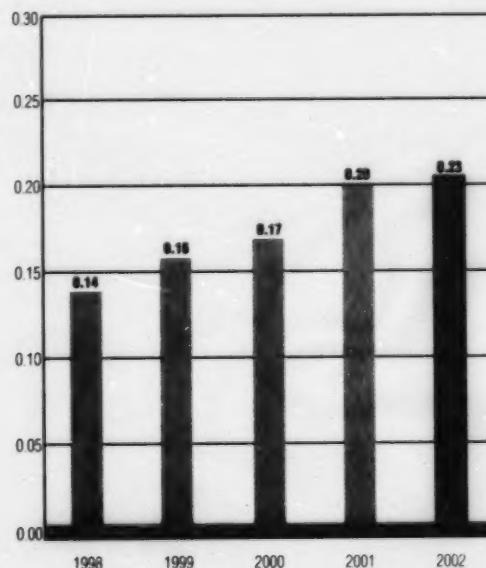
Total Generation Integrated System
000 000 kWh



Total Revenue
millions of dollars



Equity Ratio



Chairman's Message

The Board of Manitoba Hydro was pleased with the achievements of the Corporation in the past year and with the continued progress towards its goals. At the

same time, the challenges facing the Corporation are significant as it continues to forge a new relationship with Aboriginal communities, as it makes preparations for the integration of Winnipeg Hydro and as it

deals with the complexities of planning for new hydroelectric developments in northern Manitoba.



Progress was made on all these fronts, and many others, during the 2001-02 year. Manitobans can remain confident that the high quality energy services they currently enjoy will continue into the future as Manitoba Hydro remains a key provincial asset.

Manitoba Hydro is emerging as a leader in the province with respect to relations with Aboriginal communities. It received the National Vision Award from Human Resources Development Canada, in partnership with the Conference Board of Canada, for best practices in employment equity in Canada. The Corporation is involved in a number of programs and initiatives, many of them documented in this report, that are aimed at increasing the number of Aboriginals employed at Manitoba Hydro and ensuring successful long-term careers with the Corporation.

Similarly, Manitoba Hydro continues to enhance its reputation with respect to environmental performance. For the third consecutive year it has been awarded Gold Champion Level recognition by Canada's Climate Change Voluntary Challenge and Registry for greenhouse gas reporting and action plans. The Corporation is very active in environmental research, performance monitoring and ensuring that its activities produce the least impact possible on the environment.

Manitoba Hydro is making every effort to ensure that it continues to benefit from export sales in the future. To this end, it has been making preparations for the last several years to develop new hydroelectric facilities in northern Manitoba, specifically to produce power for the export market. After several years of discussion and planning with local First Nations, the Corporation, while not yet having made a decision to proceed, inaugurated an environmental review process with the provincial government for the Wuskwatim project that will allow the Corporation to protect an in-service date of 2009 for the facility.

The Board is very pleased with the coordinated, highly consultative approach that was developed for this project with the Nisichawayasihk Cree Nation at Nelson House, and with the similar model used with regard to the Gull (Keeyask) hydroelectric development near Tataskweyak Cree Nation at Split Lake. The First Nations have truly been in on the "ground floor" of discussions concerning these projects and have been full participants in virtually all aspects of the projects to date. The Agreements-in-Principle forged with both First Nations allow for equity partnerships for the First Nations that would produce ongoing revenues for them once the projects are in operation.

The Board would like to recognize the employees of Manitoba Hydro for their efforts over the past year in serving Manitobans and for helping to make Manitoba Hydro one of the leading utilities in Canada.



Victor H. Schroeder, QC
Chairman
The Manitoba Hydro-Electric Board

President's Message

Manitoba Hydro experienced another successful year in 2001-02, with a net income of \$214 million and a new record of \$588 million in revenue for

exports of electricity. This marks the sixth consecutive year of growth in export revenue and a net increase of 23 per cent over last year's record of \$480 million.



Strong export revenues have allowed Manitoba Hydro to keep electricity rates for residential customers unchanged for six years and 11 years for large industrial customers. Low electricity rates provide a direct benefit to individual customers and allow Manitoba businesses to maintain a cost advantage over their competition in other provinces and countries.

In order to ensure an ongoing supply of electricity and take advantage of export opportunities, Manitoba Hydro continues to plan for the development of new hydroelectric facilities in northern Manitoba. We are working closely with Tataskweyak Cree Nation (TCN) and Nisichawayasihk Cree Nation (NCN) regarding the development of new hydroelectric sites in their resource areas. During the year, an Agreement-in-Principle was signed with NCN with respect to future development, similar to that signed last year with TCN. Discussions continued during the year with War Lake First Nation, York Landing First Nation and Fox Lake First Nation with regard to new potential involvement with the Gull hydroelectric project.

In response to skyrocketing market costs for natural gas last year, the Corporation introduced the Home Comfort and Energy Savings Program. Providing energy audits and financial support for energy-saving renovations undertaken by homeowners, the program received an overwhelming response from Manitobans, with some 5 400 Manitobans taking out \$18.3 million in Power

Smart Residential Loans by the end of the fiscal year. A number of other Power Smart programs were introduced during the year, part of Manitoba Hydro's commitment to encouraging the wise use of energy. Fortunately, market prices for natural gas declined significantly during the year and Manitoba Hydro was able to pass along a series of rate decreases to its natural gas customers in the latter half of the fiscal year.

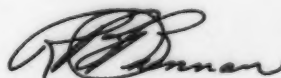
Work progressed in 2001-02 on the addition of the 260 MW two natural gas-powered turbine generators to the Brandon Generating Station, as well as the conversion of the Selkirk Generating Station from coal to natural gas operation. The new units at Brandon will add to the reliability of our system and allow us to maximize our export opportunities. Manitoba Hydro is one of the first utilities in Canada to convert a station from coal to clean-burning natural gas. It was also gratifying during the year to receive the results of a number of studies into the impact of the Selkirk Generating Station that essentially exonerated the station from concerns that its operations had significant impacts on the local environment.

I am proud that Manitoba Hydro is very close to completing work on a Corporate-wide Environmental Management System (EMS), consistent with ISO 14001 standards. Our generating and converter stations had all achieved compliance with ISO 14001 by the end of 1999. An EMS is a management structure that allows the Corporation to assess and control the environmental impact of its activities, products and services. This is one example of a number of measures that the Corporation is taking to ensure that it constantly improves its environmental performance.

We are excited by the prospect of acquiring Winnipeg Hydro and welcoming the employees of that organization to Manitoba Hydro. With their expertise and long legacy of dedicated, exceptional service to customers in the central core of the city, we will become a stronger, healthier utility that can compete in the changing energy marketplace of North America. The employees of Winnipeg Hydro have also long been known for their innovative commitment to their community and we fully expect to learn and build on that resource. We expect that this transaction can be completed in the summer of 2002. Manitoba Hydro looks forward to serving the Winnipeg Hydro customers and becoming their one-stop energy supplier.

In its budget announcement of April 22, 2002, the Provincial Government introduced a distribution of up to \$288 million from Manitoba Hydro's retained earnings to be paid to the government over the next two years. Manitoba Hydro's success with regard to electricity exports will allow it to manage these payments in such a manner that it does not impact negatively on consumer rates.

Once again I extend my sincere thanks to the employees of Manitoba Hydro for their extraordinary skills, dedication and commitment in serving the energy needs of Manitobans during the year. The achievements noted in this report are due to their efforts in what continues to be very challenging times for the energy industry. I also thank the Chairman of the Manitoba Hydro-Electric Board, Vic Schroeder, and his colleagues on the Board for their support and guidance during the year.



R. B. Brennan, FCA
President and Chief Executive Officer



Year in Review



Exceptional customer service, a standard

For over 50 years, Manitoba Hydro has built and delivered on its reputation as a reliable energy service provider. Today, our customers have an even greater interest in how to use efficiently the energy they consume and how to ensure its quality and reliability meets the demands of the electronic age in their homes and businesses.

In its first full year of operation, the Home Comfort and Energy Savings Program proved an outstanding success, with over 11 000 homeowners taking advantage of the program to save energy in their homes. Of these, some 5 400 took out a total of \$18.3 million in Power Smart* Residential Loans. The program offers homeowners information through home energy audits and financial support towards renovations undertaken to increase the energy efficiency of their homes. In addition to benefiting customers, the

program also benefits the economy by stimulating the home renovation industry and improving the environment by reducing greenhouse gas emissions from heating systems.

One of the keys to the success of the program was the involvement of the retail sector, initially in program design and later through the processing of applications for loans on behalf of customers. Applications on behalf of customers were received from more than 430 suppliers participating in the program. To date, Manitoba Hydro has financed renovations for more than 526 621 square feet in households improved to Power Smart standards.

In 2001-2002, several more programs under the Power Smart banner were launched to continue to provide an awareness of products and energy conservation methods to consumers.

A program, introduced during the year and unique in Canada, demonstrates the leading edge approach to customer service that Manitoba Hydro delivers to its customers. The two-year Energy Manager pilot program identifies

Manitoba Hydro has built its reputation as a reliable energy service provider.

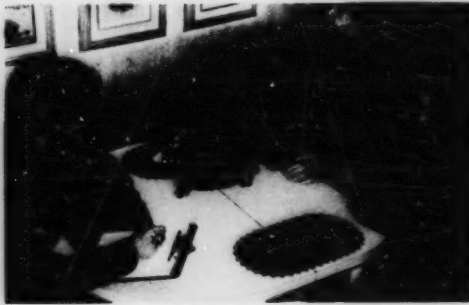
Homeowners have taken advantage of the Home Comfort and Energy Savings Program, through energy audits and energy efficiency improvement loans.

One call to Manitoba Hydro provides underground checks for both electricity and natural gas lines before you dig.

* Manitoba Hydro is a licensee of the Official Mark.

Students and staff of the Assiniboine School Division participate in an energy conservation program.

University students were hired to assist seniors in managing their power usage through free home energy audits of their homes.



and implements improvements and behavioural changes to reduce energy/resource consumption in the 15 schools and offices of the Assiniboine South School Division #3. Students and staff, with Manitoba Hydro's collaboration, will identify ways to maximize the effective use of electricity, natural gas, and water, reduce solid waste disposal and minimize environmental impacts. Especially for the students, building awareness of energy conservation now will lead to more environmentally sensitive actions in the future.

We formed a special cross-generational collaboration between students and seniors by setting up a Power Smart Student Team during the summer of 2001 to provide energy audit assistance to Manitoba seniors. Opportunities were identified to reduce energy bills and increase awareness of energy efficiency measures. Household data was reviewed and personalized reports outlining recommendations for retrofitting, along with the costs and savings related to those recommendations, were presented to the seniors. By program's end, 297 seniors participated in this assessment.

One of the other initiatives launched under Power Smart during 2001-2002 was targeted specifically to help religious facilities lower their energy bills. The program acknowledged the unique challenges for the religious community who heat large churches, synagogues and temples. The initiative included information sessions, energy audits and financial assistance in the form of low-interest loans.

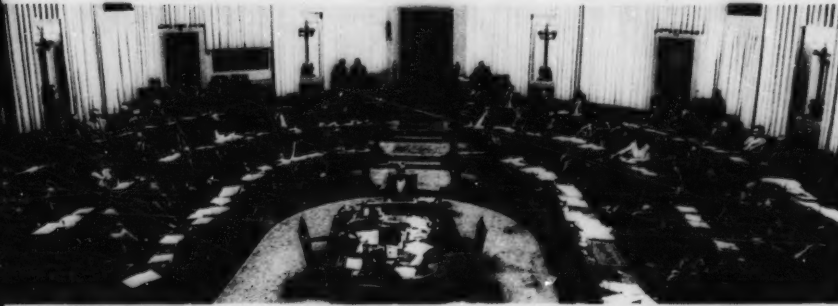
The Power Smart strategy continues to save Manitobans millions of dollars in energy costs. To date, energy conservation initiatives have achieved estimated demand savings of 185 MW and estimated energy savings of 496 GW.h per year. The initiative is expected to achieve cumulative total savings of 356 MW and 1 272 GW.h per year by the year 2011-12.

Rates and regulatory issues

Manitoba Hydro's electricity customers continue to enjoy a long period of rate stability. Rates have not increased to residential customers since 1997 and rates to large industrial customers have remained unchanged since 1992. We continue to be in the enviable position of having the lowest overall rates in Canada and among the lowest in the world. In November 2001, provincial government legislation equalized northern, rural and urban electricity rates throughout the province. The new uniform rates allow all customers to receive the lowest available rate, regardless of where they live in Manitoba. Previously, rates were divided into three "zones" – Winnipeg, Medium Density and Low Density – with Winnipeg having the lowest rate. All Manitobans now pay the Winnipeg rate, which remains unchanged. In total, Manitoba's uniform rates will save electricity customers about \$14.4 million annually.

Final approval for the sale of Winnipeg Hydro to Manitoba Hydro will come through the Manitoba Legislature.

Preparations for appearances before The Public Utilities Board were ongoing throughout the year.



© Photo by Tracey Goncalves.



Over the fiscal year 2001-2002, natural gas prices declined significantly from the unprecedented increases experienced in the previous year. Three consecutive quarterly rate decreases were passed on to customers in August 2001 (15.9 per cent decrease), in November 2001 (5.7 per cent decrease), and in February 2002 (2 per cent decrease). In order to recover the full cost of gas that accumulated during the winter of 2000-2001, a new rate component was implemented on customers' bills as of August 1, 2001. This additional charge on customers' bills will recover, over a 24-month period, the difference between the actual cost of gas purchased by Centra and the amount charged to customers that accumulated between November 2000 and April 2001. With respect to Centra's regular quarterly rate changes, the Public Utilities Board ordered that effective August 1, 2001, rates charged to customers must reflect 100 per cent of the difference between amounts embedded in rates and the 12-month forward price for Western Canadian gas supplies. Previously, Centra incorporated only 50 per cent of this difference in rates in order to mitigate gas price volatility on customers' bills.

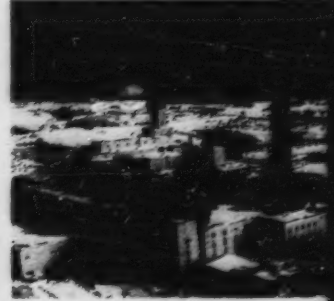
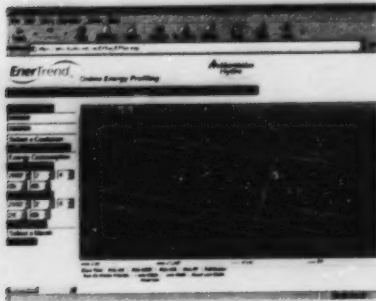
Winnipeg Hydro purchase benefits all customers

In February 2002, Manitoba Hydro announced an offer to purchase Winnipeg Hydro from the City of Winnipeg. The Winnipeg City Council subsequently accepted the offer, paving the way for negotiations on the final terms of a sale agreement to be concluded by the end of May 2002. Expectations are that the deal will be finalized by the summer of 2002 following approval from the Manitoba Legislature.

In addition to cost savings, estimated to be \$8 million per year, the acquisition will allow for greater efficiencies in the generation, transmission and distribution of energy to all Manitobans. Manitoba Hydro will also be able to improve customer service through the coordination of programs, emergency response, and billing, metering and collection processes.

EnerTrend™ web-based format provides users with maximum flexibility and produces an invaluable overview of how your energy is used.

Inco Limited in Thompson continues, with our engineering assistance, to achieve energy savings.



Building strong customer relationships

Enhancing our involvement with our industrial and commercial customers and working alongside agencies responsible for attracting potential new industry to Manitoba remains an integral part of our commitment to being a world-class provider of energy services.

In 2001-2002, large energy customers were able to subscribe to an online Power Smart service to help them manage their energy usage. EnerTrend™ is the Corporation's new energy profiling service that uses the Internet to provide industrial, commercial, and institutional customers with graphical profiles of their energy consumption. The information empowers facility operators to take control of their energy usage and find ways to reduce their energy bills, making them more competitive in their industries.

Manitoba Hydro supports agencies responsible for business development in Manitoba. Our core of specialists draws on the technical and business expertise available within Manitoba Hydro and other organizations in order to help build a compelling case for companies to select Manitoba as the location for new facilities.

One such company, Acetek Composites Inc., a company that repairs and manufactures composite aircraft parts, chose Winnipeg over another western Canadian city for its new \$10 million facility. Their decision was assisted by Manitoba Hydro's understanding of equipment used at the plant that facilitated the development of a comprehensive operating cost estimate for the facility. With this operating profile, we provided an operating cost comparison between the two cities to demonstrate the advantages of locating in Manitoba. As the company moved closer to a decision, we also provided solutions to a property easement problem at the specific site location being considered.

Other successes included participating on a team that was successful in attracting 1 200 jobs to an administrative and call centre operation owned by CanWest Global Communications. We continue to support various agencies in achieving their economic development goals. The largest of these is the Energy Development Initiative of the provincial government. This initiative is aimed at attracting and retaining industry within Manitoba based on a low cost, reliable supply of energy from Manitoba Hydro. By working together with such agencies, Manitoba Hydro is able to leverage its resources and efforts and achieve more than it would if it were working independently.

Providing engineering expertise to our business customers is also a key to ensuring strong customer relationships beyond the meter. Our engineers continue to work with one of our largest customers, Inco Limited in Thompson, to assist them in achieving energy savings in their operations. A project is in place where waste heat from the refinery exhaust ventilation and the electrolyte cooling systems is recovered and used to heat incoming ventilation air.

Parrheim Foods in Portage la Prairie is assessing their business operations through the Eco-Efficiency Solutions Program.

Manitoba's largest export customer, Xcel Energy, tours Manitoba Hydro's northern operations.



Displacing electrically generated steam is achieving significant energy savings for the company. It is one of the major contributors to the near \$4 million in energy savings achieved at the facility since 1999.

Discussions are underway with the Fox Lake First Nation in the Gillam area on developing a pilot project to grow various vegetable and leafy greens within the Kettle Generating Station using a hydroponics process. Using a unique high efficiency lighting system, the vegetable growing process will be highly energy intensive, with 80 per cent of the energy requirement coming from lighting. The project will enable Fox Lake First Nation to acquire the necessary skills in the operation of growth chambers.

Lighting support was provided to Monarch Industries in Winnipeg on their relocation to a new modern facility. A complete retrofit was recommended by our lighting specialists, which resulted in savings of 52 per cent, or more than \$35 000 annually, on their energy bill.

In November 2001, in partnership with Canada and Manitoba, Manitoba Hydro launched a pilot program to enhance the energy efficiency and environmental performance of Manitoba's industrial customers. The Power Smart Eco-Efficiency Solutions Program seeks to provide businesses with the technical expertise and financial assistance they need to identify and make improvements in systems, processes, and energy efficiency. Five key environmental aspects of a company's business – energy, water, wastewater, greenhouse gas emissions and solid wastes – are assessed under the program.

Up to 20 companies are expected to participate in the pilot program from the end of 2002-2003.

Manitoba Hydro, in conjunction with government agencies and partners, is conducting a series of seminars in Winnipeg on Managing Waste and Wastewater to recover water, energy and value-added products.

Showcasing experts from across North America, over 100 people attended to learn more about reducing waste and improving efficiency and profitability in a manufacturing setting.

Buoyant export market reaps benefits

Manitoba Hydro continues to seek out and serve customers in the U.S. and Canada in the very competitive wholesale market. During 2001-2002, Manitoba Hydro's ability to satisfy these customers' requirements resulted in energy sales accounting for 12.3 billion kilowatt-hours. Revenues from our export customers continue to help keep rates charged to Manitobans substantially lower than would otherwise be the case. Over the last 12 years, revenues from electricity exports have multiplied ten-fold, reaching an all-time high this year with \$588 million in sales.

Over the next decade, the demand for electricity from customers in Manitoba Hydro's export markets is expected to remain strong, helping to keep export revenues high. The profits from these sales help to keep domestic electricity rates low.

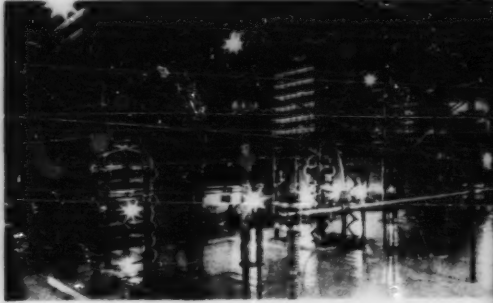
Manitoba Hydro's System Control Centre in Winnipeg is responsible for the operation of the province's power system.



Journeymen Linemen assist in maintaining and repairing nearly 100 000 kilometres of transmission and distribution lines.



Dorsey Converter Station thyristor valve hall.



Reorganization of transmission markets

In February 2002, Manitoba Hydro began full operations with the Midwest Independent System Operator (MISO) organization, providing open wholesale transmission access to a much larger market in the American Midwest. MISO, with headquarters in Indianapolis, Indiana, assumed control of the Mid-Continent Area Power Pool (MAPP) Security Center and Transmission Service and Tariff Administration in St. Paul, Minnesota. The organization facilitates Manitoba Hydro's access to the coordinated operations and transmission services of participating companies.

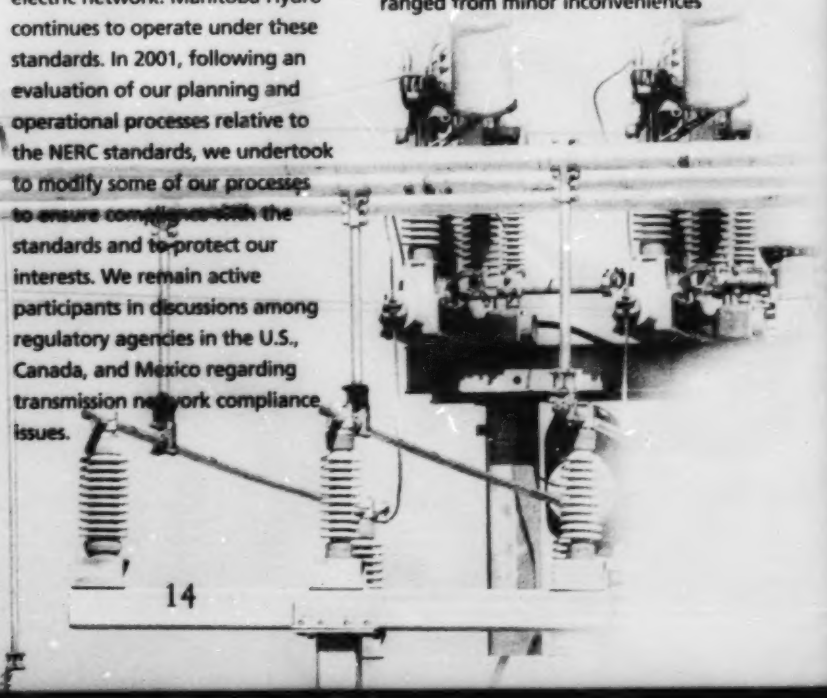
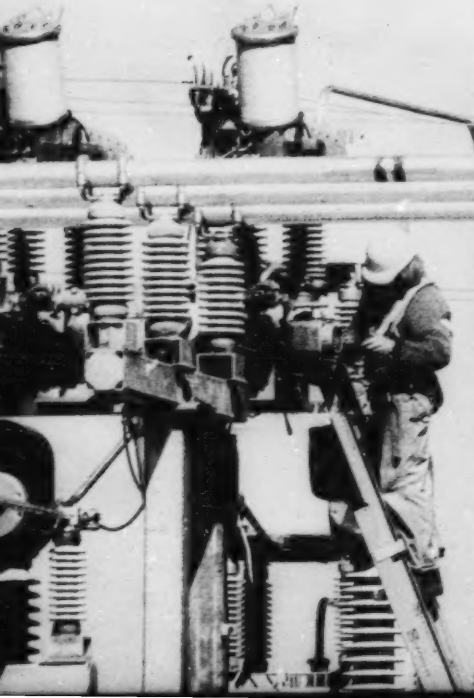
Manitoba Hydro also began joint coordinated transmission services with Saskatchewan Power Corporation when Saskatchewan provided open access to its transmission grid in November 2001. Similarly the Corporation is working with Ontario electrical companies to coordinate and facilitate transmission services with Ontario as of May 1, 2002.

The North American Electric Reliability Council (NERC) has compliance standards in place to ensure that electric utilities plan and operate their generation and transmission systems in accordance with defined guidelines to provide for the reliability of the interconnected North American electric network. Manitoba Hydro continues to operate under these standards. In 2001, following an evaluation of our planning and operational processes relative to the NERC standards, we undertook to modify some of our processes to ensure compliance with the standards and to protect our interests. We remain active participants in discussions among regulatory agencies in the U.S., Canada, and Mexico regarding transmission network compliance issues.

Reliability remains key

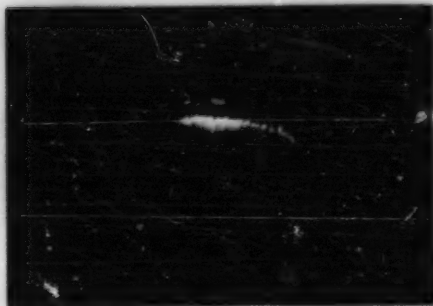
Maintaining system reliability under adverse conditions is always a challenge for a province as geographically diverse as Manitoba. Manitoba Hydro has thousands of kilometres of transmission and subtransmission lines and equipment at remote substations that are exposed to the elements. Weather events can, and do, threaten the reliable operation of our power system.

Over the August 2001 long weekend, a severe lightning storm with heavy rain and extremely high winds affected service to many customers in many different parts of the province. Electrical outages ranged from minor inconveniences



Fibre optics is the new technology being used to meet the increasing demands of power system reliability requirements and modern office systems.

Helicopters, outfitted with gas powered carts, carry men and replacement spacer damper parts for the maintenance work on the two HVDC transmission lines.



to interruptions of much longer duration, the direct result of very widespread severe storm damage. At one point, power on the 500 kV Manitoba to U.S. transmission interconnection was interrupted along with other major lines and transformers. Through the quick actions of system operators calling on neighbouring utilities to provide temporary emergency energy, operators were able to return the power lines to service within a few minutes and restore system stability.

Also in August, significant constraints were experienced for a nine-day period on exports to and imports from the U.S. following the collapse of a 500 kV transmission tower near Duluth, Minnesota due to severe weather. Special operating procedures were put in place to ensure system reliability during the constrained operation.

In October 2001, and again in December 2001, icing conditions and strong winds in western and central Manitoba threatened customer supply. Early response to conduct ice melting and rolling ice off the affected lines prevented the damage from becoming more extensive and allowed service to be restored in a timely manner.

Work continues on a multi-year project to install almost 2 000 kilometres of fibre optic cable throughout the province. This system will replace several existing microwave radio communications systems that can no longer meet power system reliability requirements or the demands of modern electronic office systems. In 2001, 70 kilometres of cable was installed from the St. Vital station in Winnipeg to stations in Richer and Steinbach as part of a larger project to replace vital communications links to interconnected U.S. utilities. This project is coordinated with Minnesota Power so that both utilities are in a position to turn on the new facilities simultaneously, ensuring continued communication capability.

Route selection has also begun on a larger phase of the overall project involving the installation of fibre optic cable and associated electronic systems through the Interlake to the Nelson River stations. Manitoba Hydro will utilize available bandwidth to facilitate high speed Internet and data services to under serviced areas along the route – much the same way that the original HVDC communications system enabled quality telephone and television transmission to northern communities in the early 1970s.

Maintenance underway on HVDC lines

Maintenance work was completed on the first year of a two-year project to replace nearly 45 000 spacer dampers on Manitoba Hydro's two HVDC lines. Spacer dampers separate the HVDC lines, preventing them from clashing together while also reducing vibration. On average, there are five to seven spacer dampers per span. The lines extend over 900 kilometres from the Dorsey Converter Station in Winnipeg to the Radisson and Henday converter stations near Gillam.

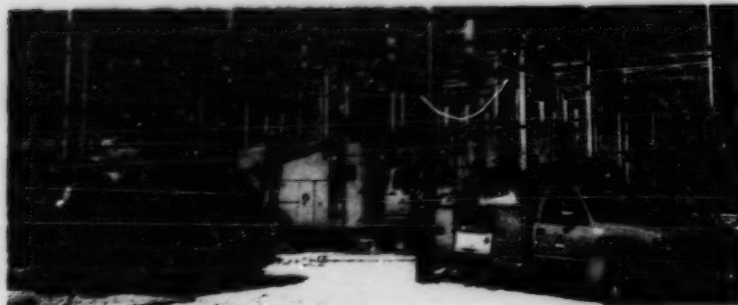
New transmission line gets licensing go-ahead

Manitoba Hydro received the required Manitoba Environment Act License and National Energy Board approval to allow for the construction, operation and maintenance of the Glenboro, Manitoba to Rugby, North Dakota 230 kV transmission line. The line will increase our capability to import and export 200 megawatts of electricity as well as improve the reliability of supply in North Dakota and in western Manitoba.

Construction of the new 230 kV transmission line from Dorsey Converter Station to St. Vital station in south Winnipeg.



Substation improvements and upgrades are an ongoing process to meet customer load growth.



Construction activities have begun, with in-service scheduled for the fall of 2002.

A Manitoba Environment Act Licence was also received for a new Brereton Lake 124-12 kV transformer station and associated distribution line upgrades in parts of the Whiteshell Provincial Park. The new station is planned to be in service by October 2003, with the upgrades to the existing distribution system to begin in the fall of 2003. The improvements will increase the reliability of supply to the area.

A new 70 kilometre 66 kV transmission line from Jenpeg to Norway House was completed to act as an alternate source of supply into the growing community including the construction of a new community school. Installation of 350 street-lights was also completed in Norway House. A new 25 kV line from Thompson was built to the community of Paint Lake.

Construction of a new 230 kV transmission line from Dorsey Converter Station to St. Vital Station was completed in January 2002. The line was built to support customer growth in south Winnipeg.

The new Flin Flon – Border station was placed in service providing direct service to Hudson Bay Mining and Smelting from Manitoba Hydro's system as well as a reliable connection for supplying Saskatchewan.

Various station site improvement projects involving the replacement of electrical components to upgrades of transformer units took place at the following stations in 2001-2002: Assiniboine Wilkes, Benito, Brandon 65th East, Brandon Victoria, Dorsey, Flin Flon Cliff Lake, Flin Flon Ross Lake, Ft. Garry Mohawk, Glenboro, Great Falls, Jenpeg Terminal, La Verendrye, Manitou East, Neepawa, Pine Falls, Reston, Ruttan Lake, St. Leon, St. Vital, Springfield Road, Souris East, and Teulon. As part of our annual transmission line maintenance, nearly 30 000 kilometres of transmission and sub transmission lines were patrolled on the ground or through the air throughout the province in 2001-2002.

Manitoba Hydro also contracted to do work on customer-owned substations and transmission lines due to our unique expertise in working in geographically isolated

areas, coupled with our high standards in safety, quality of work and our specialized skills and equipment. Construction of a substation for Albchem, a sodium chlorate plant west of Virden, an upgrade to a substation for Nexen Chemical in Brandon, upgrades to a Hudson Bay Mining and Smelting transmission line in Flin Flon and installation of underground fibre optic and communication cable for Manitoba Telecom Services in Brandon were just some of the contracted work performed by Manitoba Hydro in 2001-2002.

Manitoba Hydro, in partnership with Partner Technologies Inc. of Regina, Saskatchewan, has invented a 66 kV padmount transformer suitable for serving smaller distribution loads in Manitoba directly from the 66 kV subtransmission system. The invention enables us to service these customers at a third of the cost of building a new distribution station. The transformer eliminates the need for a station structure, a fence or a switchyard, and the transformer itself is about half the cost of a standard power transformer. A patent is being sought and opportunities being identified for marketing the technology across North America.

Work on installing a high-pressure natural gas transmission pipeline from Landmark to East Selkirk was completed in 2002.



New diesel generating station for Shamattawa

Agreement was reached with the Shamattawa First Nation to proceed with construction of a new diesel generating station near the community. The project is expected to be completed in 2003 and will be able to meet the future electrical demand of the community for the next 10 years.

Cleanup of the decommissioned diesel generating station sites in several north central Manitoba communities continued. The communities were connected to the electrical power grid in 1998. In 2001-2002, site cleanup was completed in God's River and Garden Hill while soil remediation continues in Oxford House and Red Sucker Lake with cleanup of the decommissioned station at St. Theresa Point to begin in the summer of 2002.

Soil remediation projects were also undertaken at Pauingassi, Nelson House, Poplar River, Moose Lake, Pikwitonei, and Brochet.

Technologies streamline work process

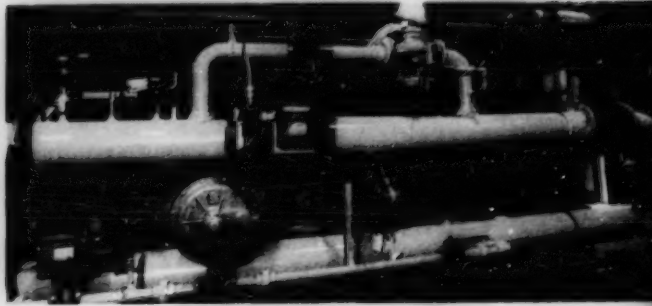
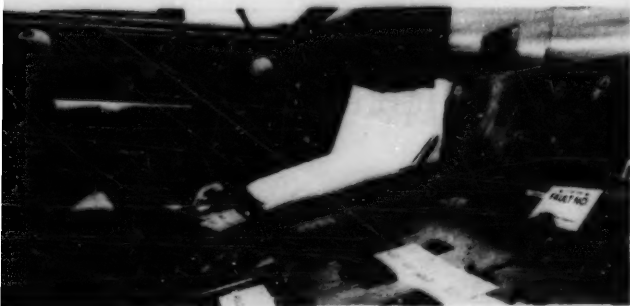
Construction survey crews have implemented a state-of-the-art survey tool using the technology of global positioning satellites. A Survey Grade GPS Total Station delivers sub-centimetre accuracy thereby eliminating the need to use line-of-sight survey techniques. In comparison, other GPS models currently on the market deliver plus or minus one metre accuracy or, in the case of hand held units, plus or minus 20 metres accuracy. The global positioning satellite technology will also streamline data collection and plant layout processes.

Another innovative technological method is also being adopted for installing gas lines. The Horizontal Directional Drilling method was used to install two steel gas lines in Brandon, and resulted in no visible negative impacts to the landscaped area along the route. It was installed within schedule, cost and to specifications while protecting the integrity of the pipe. This method is also being used for fibre optic cable installations in Richer.

During 2001-2002, we embarked on deploying an Electronic Engineering Drawing Management system to centralize and manage engineering drawings for electric generation and high voltage transmission facilities, as well as electric and natural gas distribution facilities. The system, to be implemented in stages over a two-year period, will streamline access to over half a million engineering drawings and help ensure that up-to-date drawings are centrally maintained and available to all staff.

The Selkirk Generating Station Control Room prepares for its conversion to a natural gas generation facility.

Natural gas line pipes are installed in the Selkirk station.



Selkirk thermal plant conversion brings environment to the fore

After more than 40 years of serving the needs of Manitobans, Selkirk Generating Station ceased its coal operations in March 2002 and its conversion to a natural gas generation facility began. Manitoba Hydro is one of the first utilities in Canada to convert a station from coal to clean-burning natural gas. As a result, the environmental footprint of the station will be significantly reduced, eliminating or reducing most air emissions.

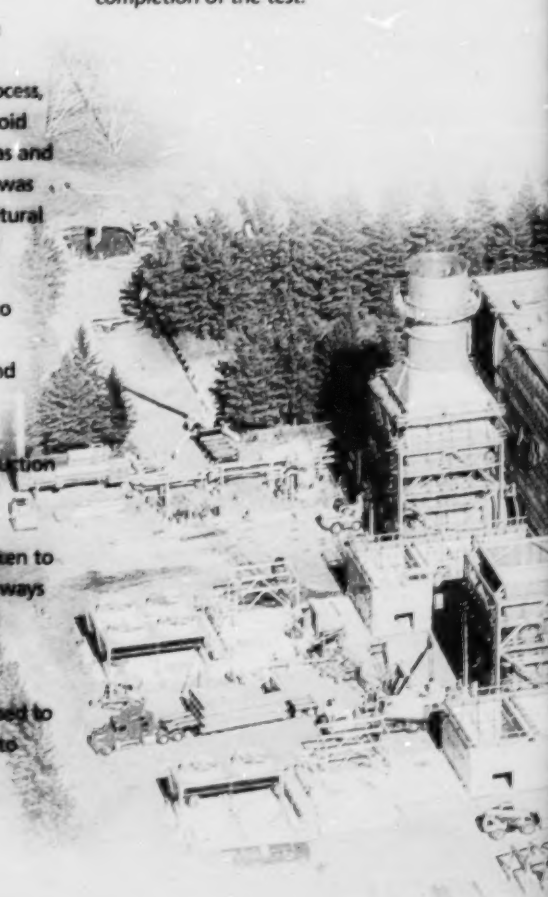
In 2001-2002, Manitoba Hydro was called upon to look back at its historical operations of the Selkirk Generating Station to assess the environmental significance of the station's air emissions. Following the commissioning of several extensive studies, the results of the human health and ecological risk analysis determined that there were no measurable, adverse impacts on the human, wildlife, livestock, vegetation and soil communities from the coal-fired operation of the facility.

During 2001-2002, a high-pressure natural gas transmission pipeline from Landmark to East Selkirk was also completed to service the plant. As well, the pipeline has the capability to supply some of the rural areas along its route. Consistent with its commitment to protecting the environment, Manitoba Hydro minimized impacts in the design and construction of the station's natural gas transmission pipeline.

Through implementation of a comprehensive planning and environmental assessment process, the pipeline was routed to avoid environmentally sensitive areas and tree clearing along the route was kept to a minimum. In agricultural areas the pipeline was buried deeper than usual to provide landowners the opportunity to maintain and upgrade local drainage ditches. Affected and adjacent landowners were consulted regarding pipeline routing and advised of construction timing and progress.

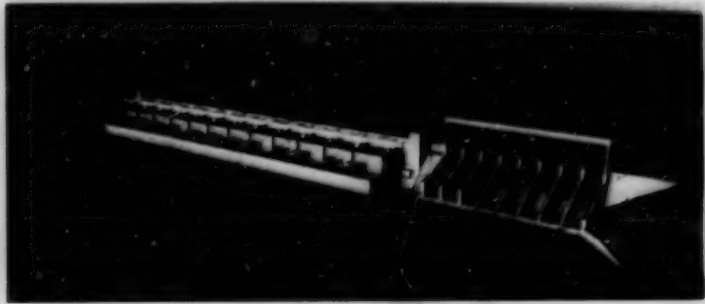
Extraordinary efforts were taken to drill the pipeline under waterways and wetlands so fisheries and wildlife habitat would not be disturbed. For example, an exceptionally long drill was used to tunnel under the Seine River to avoid disturbing the aquatic

habitat and the adjacent forested area. The pipeline was also drilled under highways and access roads so traffic was not disrupted. Innovative techniques allowed the completed pipeline to be pressure-tested during the winter by using heated water as the test medium rather than a methanol/water mixture. The methanol mixture would have generated a large volume of undesirable waste upon completion of the test.



Commissioning of the new Brandon combustion turbine facility was underway at year end.

All of Manitoba Hydro's facilities, such as the Kettle Generating Station, are successfully registered under the ISO 14001 standard.



Combustion Turbine project shifts to testing

All major equipment has been installed and construction completed at the site of the new 260 MW combustion turbine plant in Brandon. Work has shifted to testing and commissioning of the plant, with in-service dates expected in May and June 2002. A significant milestone was the synchronization of one natural gas-fuelled turbine unit to the electrical grid on March 27, 2002, just over one year since the first of almost 100 concrete foundation piles were poured.

Upgrades at the Brandon Generating Station

have also been made to the coal-firing Brandon Generating Station. They include: 115 kV switchyard upgrade, a water treatment plant upgrade, a new water intake fish screen and the creation of a new water intake. A CO₂ injection system was installed for pH control of ash lagoon effluent. Since the system has been in place, a combination of monitoring and treatment has yielded effluents lower in pH than previously recorded levels.

Manitoba Hydro facilities achieve ISO 14001 certification

During 2001-2002, all of the Corporation's remaining generating stations and converter station facilities were successfully registered under the ISO 14001 standard. The facilities have attained Environmental Management System (EMS) - ISO 14001 certification under criteria set by the International Organization for Standardization (ISO) for managing processes that have an impact on the environment. EMS is a management structure that allows Manitoba Hydro to demonstrate its ability to assess and control the environmental impact of its activities, products, or services.

Since 1993 Manitoba Hydro has been fully engaged in the development and implementation of Environmental Management Systems consistent with ISO 14001. At the outset, the focus was on developing systems at generating facilities. This was consistent with the schedule in the Environmental Commitment and Responsibility (ECR) Program.

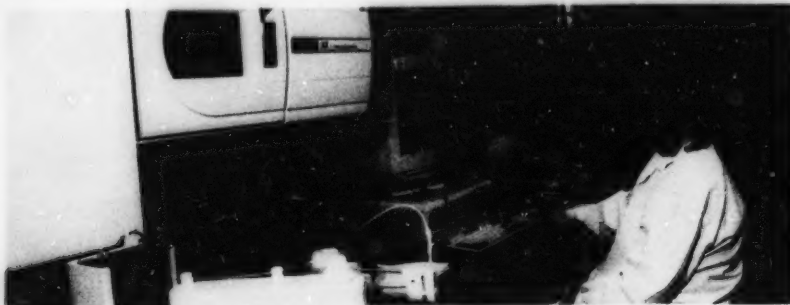
This program is administered by the Canadian Electricity Association (CEA) and is supported by all electric utility members of the CEA.

By the end of 1999, EMS development and implementation was complete at all generating and converter stations. During the development process, senior management and Manitoba Hydro took a decision to seek registration to the ISO 14001 standard for these facilities. This task was completed and, by the end of 2000, 11 generating facilities and three converter facilities were functioning under Environmental Management Systems registered to ISO 14001.

An ISO 14001 EMS is based on the continual improvement model. Embracing the notion of continual improvement, the Corporation decided to improve the effectiveness and efficiency of the management systems by raising them to the business unit and Corporate level. By the end of March 2002, development work on this management system was nearly complete. Registrations to ISO 14001 are expected in late 2002.

Manitoba Hydro Laboratories remain as leaders in PCB testing processes and analysis.

Grand Rapids Generating Station Unit 2 is returned to service following a 14-month overhaul.



Leadership in PCB testing

Manitoba Hydro Laboratories has developed a new analytical method for testing PCBs by using a combination of Gas Chromatography and Mass Spectrometry. The process will result in a PCB database of much higher quality for inventory purposes. Manitoba Hydro Laboratories is the first laboratory in Canada to adopt this method for routine analysis.

Reducing climate change impacts

The greenhouse gas reporting and action plans of Manitoba Hydro and its subsidiary, Centra Gas, have again been recognized by Canada's Climate Change Voluntary Challenge and Registry. Manitoba Hydro received the highest level of recognition, the Gold Champion Level, for the third consecutive year while Centra Gas was recognized as a Silver Champion Level Reporter for the second consecutive year.

Manitoba Hydro has put in place an innovative set of policies which will constrain our own emissions of greenhouse gases, encourage emission trading and seek out emission reduction projects. The conversion of the Selkirk Generating Station from coal to natural gas will result in significant emission reductions. In addition, we continue to explore many other options to reduce global emissions including the development of new hydropower resources, landfill gas projects, Power Smart efficiency improvements and feasibility studies for wind, hydrogen production, microturbines and fuel cells.

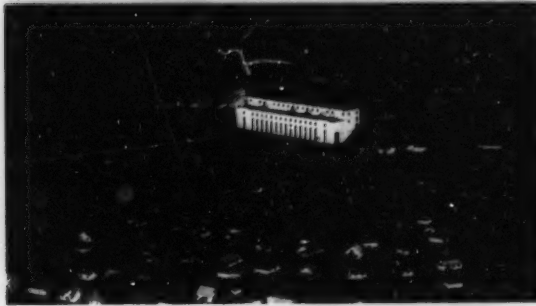
Our gas operations undertook several initiatives aimed at reducing greenhouse gas emissions. A key initiative was the development and use of a Remote Sensing Unit to provide readings of corrosion protection levels on the pipeline system, enabling gas operators to identify problems early on, thereby leading to less fugitive emissions. Regular leak surveys of all underground transmission pipelines continue in order to reduce the likelihood of a gas-venting occurrence.

Inspections key to generating station performance

Following a 14-month overhaul, Grand Rapids Generating Station Unit 2 was returned to service, completing an overall rehabilitation effort of all four generating units at the station. The upgraded turbine will provide a more efficient operation over a greater range of operating conditions. As well, all of the units are now controlled by a state-of-the-art Unit Control and Monitoring System.

Various repairs and maintenance activities were undertaken in 2001-2002 at Manitoba Hydro's four generating stations on the Winnipeg River. Inspections of our facilities continued under the Corporation's Dam Safety Program. At the Seven Sisters Generating Station, a Dam Breach Early Warning System is being commissioned. In the unlikely event of a dam breach, sirens will warn the local public. Major rip rap repairs were completed to the dykes at McArthur, Great Falls, Seven Sisters generating stations on the Winnipeg River and the Grand Rapids Generating Station on the Saskatchewan River. Near the Jenpeg Generating Station, emergency temporary repairs were made at the Kiskitto dyke in order

Great Falls Generating Station was one of Manitoba Hydro's four stations on the Winnipeg River to undergo maintenance to its dykes.



Refurbishment of the turbine units at Seven Sisters aids in increasing the station's output.



to stabilize a sinkhole that unexpectedly appeared on the surface of the dyke. The controlled water flow through the dyke into Kiskitto Lake has been curtailed to facilitate permanent repairs of the dyke and water control structure during the summer of 2002.

At our five northern stations, staff are taking advantage of low water conditions and the reduction of transmission capability on the HVDC system to complete 90 per cent of annual maintenance work with little or no losses of revenue. The maintenance will include changing oil in a number of power transformers at Kettle, Long Spruce and Limestone generating stations — work that originally would have taken place over a number of years at some considerable loss of revenues. Kelsey Generating Station underwent some long-term maintenance to its intake gates.

Seven Sisters sets new record

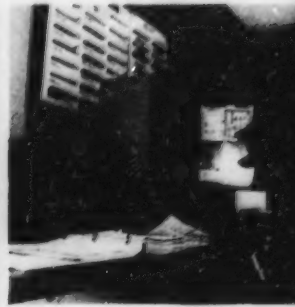
During 2001-2002, Seven Sisters Generating Station produced 1.28 billion kilowatt-hours, exceeding its previous production record established just last year of 1.25 billion kilowatt-hours.

Refurbishment of four of the six units at the station over the last several years, combined with this year's excellent water conditions on the Winnipeg River is attributed to the achievement of the new record.



A partnership agreement between Manitoba Hydro and the Northern Association of Community Councils will advise the utility in the training, recruitment, employment and retention of First Nations people.

Aboriginal employees undergo training in the electrical technical trades.



Aboriginals and Manitoba Hydro

Manitoba Hydro's involvement with Aboriginal interests is closely tied to our significant investments in areas where Aboriginal people live, our growing Aboriginal labour force, and our new First Nation partnerships in future hydroelectric development.

A number of initiatives were launched in 2001-2002 to further increase representation of Aboriginals within our workforce and to establish new levels of mutual understanding and respect. A northern Aboriginal employment counselor, a member of the Pimicikimak Cree Nation

(Cross Lake First Nation), was hired to work out of our Thompson office to assist Aboriginal employees and their families in their successful transition into Manitoba Hydro careers. A full-time Respectful Workplace Advisor position has been created to provide preventive measures to address workplace issues as well as early intervention strategies, education, and training.

Partnership agreements, in the form of a Memorandum of Understanding, were signed with the Assembly of Manitoba Chiefs and the Northern Association of Community Councils to form employment-working groups to assist us in our Aboriginal employment initiatives.

Aboriginal employment targets for our northern operations were increased from 25 per cent to 33 per cent by 2005, as a result of exceptional results achieved in northern staffing activities in recent years.

A new Aboriginal Education Funding Program was established in 2001-2002 for Aboriginal students entering the Electrical Engineering faculty at the University of Manitoba. Our total Aboriginal Awards, Scholarships and Bursaries program now amount to \$120 000 with the addition of the two "New Generation" scholarships of \$30 000 each.

Cultural awareness training is being delivered to provide employees and management with the necessary competencies to effectively support the Corporation's goals of positive Aboriginal relationships and overall cultural diversity.

Road clearing to assist preliminary surveying work at the Wuskwatim site involved local residents from Nelson House.

Public open houses were held in Nelson House on the Wuskwatim project.

Workshops were held on both the Gull and Wuskwatim projects.

National Vision Award

In April 2002, Human Resources Development Canada, in partnership with the Conference Board of Canada, awarded Manitoba Hydro the National Vision Award for best practices in employment equity in Canada. This represents the second time that Manitoba Hydro has been acknowledged for this achievement.

Forging new directions

New levels of cooperation and partnership have been forged with several First Nations on the potential of developing one of several hydroelectric generating station projects to take advantage of strong, profitable export markets in the United States and in Canada. Two hydroelectric projects are now being considered: the 200 MW Wuskwatim and the 620 MW Gull generating station projects.

Manitoba Hydro has been in discussions since 1997 with Nisichawayasihk Cree Nation (NCN) on the Wuskwatim and Notigi generating station projects and with Tataskweyak Cree Nation (TCN) since 1998 on Gull.

Since the historic Tataskweyak Cree Nation Agreement-in-Principle signing in October 2000, discussions have also been initiated with three other First Nations — Fox Lake, War Lake, and York Factory — that are all close to Gull Rapids in the Split Lake Resource Management area where the project would be developed. Manitoba Hydro and the four First Nations are cooperating to develop ways to proceed with the project. Project planning activities include a close examination of opportunities involved with project development, including matters such as training, employment, contracting, and the potential acquisition of an ownership interest in the station by the Cree Nations. Supplementing the environmental impact assessment analysis now underway, the Tataskweyak Cree Nation is undertaking an overview of water and land impacts related to the project using traditional-based knowledge processes. The Cree Nation's analysis will enable local residents to understand the consequences of project plans on their interests and make informed decisions about the nature and extent of their partnership in project development.

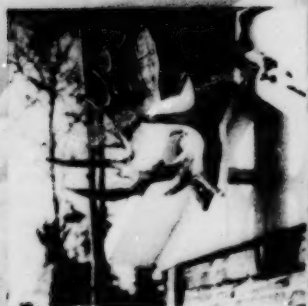
In September 2001, NCN signed an Agreement-in-Principle with Manitoba Hydro allowing the First Nation to obtain an equity position by investing in the proposed generating stations, Wuskwatim and Notigi. In January 2002, it was determined that the 100 MW Notigi project would be indefinitely deferred.

In December 2001, Nisichawayasihk Cree Nation and Manitoba Hydro filed Environmental Act Proposal Forms (EAPFs) for the proposed Wuskwatim Generating Station and its associated transmission lines. The application was submitted for provincial and federal environmental approvals in order to protect a potential in-service date of 2009 for the new generating station. A decision on whether to proceed further with Wuskwatim is expected by the summer of 2002. Since the earliest in-service date for Gull is 2012, an EAPF is not needed at this time to protect that in-service date.

Joint workshops with Tataskweyak Cree Nation, War Lake, Fox Lake, York Landing and Nisichawayasihk Cree Nation were held on environmental cumulative effects assessment for both the Gull and Wuskwatim projects.

A sturgeon re-stocking program near the Jenpeg Generating Station was undertaken by students from the Pimicikimak Cree Nation and Wabowden areas.

Fish monitoring is ongoing along the Nelson River.



Environmental partnerships

For the past several years, non-profit community organizations have received support from us through the Environmental Partnership Fund and the Forest Enhancement Program. The Environmental Partnership Fund, begun in 1993, assists environmental projects undertaken by not-for-profit organizations, and the Forest Enhancement Program, launched in 1995, funds tree planting, forest education, and innovative research projects.

In late 1999, a major initiative, the Keewatinohk Sipiia Partnership Fund, was added. Meaning "Northern Rivers", the fund helps users that share in the multiple uses of developed northern waterways continue their traditional and commercial practices. In 2001-2002, commitments have been made to contribute support to the Cormorant Fishermen, Churchill River Fishermen, Churchill River Restoration Committee, Moose Lake Draft Horse Association (to restore previously inundated feed lands at a new location) Northwest Co-operative Fisheries, OCN Fishermen, and Russell/Glasspole Fishermen.

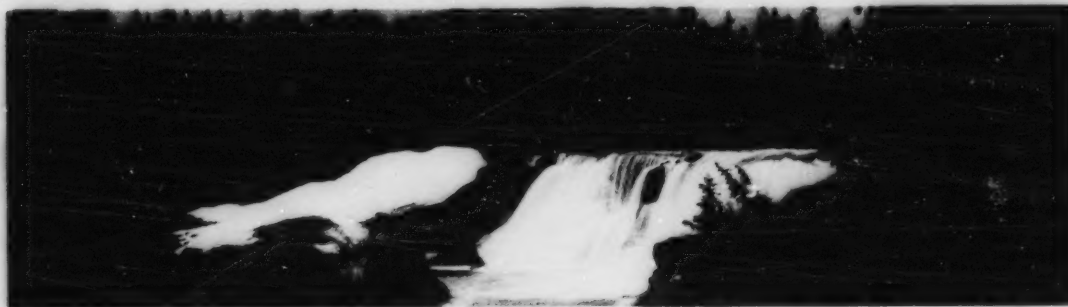
Several fish re-stocking programs continued in 2001-2002. In the fall of 2001, 20 000 sturgeon fingerlings, the highest number raised since the program began in 1994 at the Grand Rapids Fish Hatchery, were stocked at four locations along the Nelson River including downstream of the Jenpeg Generating Station. The release at Jenpeg involved 150 students from Pimicikimak Cree Nation and Wabowden. The walleye spawning enhancement program at the Grand Rapids Generating Station was also continued for the fifth consecutive spring.

Resolving issues from the past

We remain committed to resolving in a fair or equitable manner any project-related impacts not covered under the Northern Flood Agreement either through mitigation and/or compensation.

An agreement, totaling \$600 000, between Manitoba Hydro and the Historic Resources Branch of the Manitoba Department of Culture, Heritage and Tourism to conduct archeological mitigation work was renewed for a second five-year term. The program involves identifying, studying, preserving and protecting archeological sites at risk from raised water levels

By electing to develop northern hydroelectric sites over building large coal-burning facilities, Manitoba Hydro estimates it has avoided over 400 million tonnes of carbon dioxide from coal-burning stations.



attributable to the Churchill River Diversion project in the Southern Indian Lake area and along the diversion route. Nisichawayasihk Cree Nation, the community of South Indian Lake, the Manitoba Museum, and the Manitoba Department of Aboriginal and Northern Affairs have all been collaborating on this project. We have been funding archaeological research and investigation in this area since the early 1970s.

Along with the Province, we are working with Mosakahiken Cree Nation, Chemawawin Cree Nation, Easterville Community and Moose Lake Community to finalize settlement agreements that would resolve outstanding issues related to land and resource management.

A draft settlement and trust agreement aimed at resolving outstanding issues arising from past hydro developments on the community of Nelson House has been prepared. It is currently undergoing a review by the Nelson House Community Council, the Province and Manitoba Hydro.

Negotiations are continuing with the Granville Lake - Pickerel Narrows Community Association to resolve adverse effects from Laurie River hydro development. Discussions are expected to take

place with two other communities possibly impacted by Laurie River development - the Mathias Colomb First Nation and Marcel Colomb Cree Nation. The two Laurie River generating stations, built in 1952 and 1958 respectively to supply Sherritt Gordon Mines Limited, were purchased by Manitoba Hydro in 1970.

We continue to be steadfast in our commitment to address the concerns of the Pimicikimak Cree Nation (Cross Lake First Nation) with respect to our operations in their community. Unlike the Comprehensive Implementation Agreements entered into with four of the five Northern Flood Agreement (NFA) First Nation signatories - Split Lake Cree First Nation in 1992, York Factory First Nation and Nelson House First Nation in 1995, and Norway House Cree First Nation in 1997 - we continue to work with the Pimicikimak Cree Nation to find an alternative method to implement the NFA. A four-party Steering Circle, in place since 1998 and made up of Canada, Manitoba, Cross Lake and Manitoba Hydro, is currently being reviewed following Canada's withdrawal from the process. As a result, the current process is being re-examined by the remaining parties. Implementation of our on-going programs and

supports to address the adverse effects of hydroelectric development continues as does work by the parties to develop mutually acceptable approaches to NFA implementation.

As part of the NFA provision to support trapping, a total of 87 trappers in the Cross Lake Resource Management Area received direct support during the second year of a five-year trapping program. The program includes a loan traditionally offered at the beginning of the season to cover the purchase of provisions, which is then recovered through the sale of furs at the end of the season. Annual income based on the harvest of aquatic furbearers and funding of infrastructure such as cabins and docks on registered trap lines are also provided under the program.

Discussions are continuing with the Cross Lake Trappers Association to determine if there are any outstanding compensation issues to resolve for its individual members.

The provision of food for a lunch program at the D.R. Hamilton School in Cross Lake by Manitoba and Manitoba Hydro continued. Volunteers provided food preparation services.

Operation PAL, a community watch program, has over 200 communication equipped Manitoba Hydro vehicles on hand to assist the public and law enforcement authorities to prevent and report crime as well as help people and motorists in distress.



Support for two winter light display and parade celebrations continued in 2001-2002.



Manitoba and Manitoba Hydro also provided the Pimicikimak Cree Nation with a \$692 000 contribution towards construction of recreational facilities for the community's hosting of the Indigenous Summer Games during the summer of 2001. This amount was in addition to funds available to the community to operate and maintain the local arena.

Meanwhile, Pimicikimak Cree Nation continues an active publicity campaign in the United States and here in Manitoba. For the past three years, through a paid lobbyist in Minneapolis-St. Paul, Cross Lake has been working to undermine the exports of Manitoba hydroelectricity to U.S. electric utilities. The information campaign depicts Manitoba Hydro as not having looked after its commitments with respect to the Northern Flood Agreement, states that vast areas of northern Manitoba are "devastated" and also claims that virtually all social, cultural and economic difficulties in the community are due to impacts from past hydroelectric projects.

Manitoba Hydro has vigorously disputed these assertions and continues to work with legislative, regulatory, business, environmental, religious and tribal representatives in Minnesota to convey more

balanced information on these issues. Assistance and support has been provided by Tataskeweyak Cree Nation and Nisichawayasihk Cree Nation representatives who have told their own stories about past development, their agreements with Manitoba Hydro and the potential economic benefits to their people of future hydroelectric development in northern Manitoba.

To date, we have committed \$466 million for remedial works, compensation and/or mitigation initiatives in northern Manitoba. Of that amount, approximately \$58 million has been spent in the Cross Lake community.

Innovative, highly skilled employees

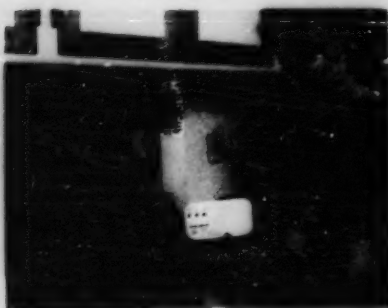
Manitoba Hydro has long considered its workforce its most valuable asset. Line management and employees were assisted in creating personal development plans that would build the knowledge and skills required to perform effectively, both for current job requirements and future career advances. In addition, an extensive Leadership Development Program was established to ensure an adequate supply of qualified candidates for future management positions within the Corporation.

The demand for internet-based training opportunities increased in 2001-2002 as employees sought out this method of learning as both a cost and time effective way to build their knowledge and skill sets.

At Manitoba Hydro, we continue to strive to improve on our safety performance in our sometimes dangerous and high-risk work environment. A flashover incident occurring on a 500 kV line while two linemen were replacing an insulator in March 2002 is undergoing a detailed investigation. While the linemen were not seriously injured – partly due to their fire-retardant clothing – live line maintenance work on the 500 kV line has been suspended until the investigation is complete.

Our accident severity rate for 2001-2002 was 135.86 days lost per hundred workers as compared to 28.58 in the previous year. Tragically, an employee lost his life as a result of motor vehicle accident in November 2001. The significant rise in the severity rate is attributable to this unfortunate accident. Disabling injury/illness frequency decreased significantly from 1.48 to .99 in 2001-2002 per 200 000 hours worked.

Families were encouraged to install carbon monoxide detectors in their homes through a special five-month campaign.



As part of our support of the National Aboriginal Achievement Awards, a creativity contest targeted at Aboriginal youth to encourage pride in their cultural heritage was held.



The Manitoba Electrical Museum & Education Centre was opened, showcasing the history of electrical power in Manitoba as well as energy conservation and safety.



A Corporate-wide behaviour-based safety work process was launched. Designed to further decrease the frequency of accidents in the Corporation, it is expected all employees will have integrated this peer-to-peer safety observation work method into their activities by the end of 2002-2003.

Carbon Monoxide "Put Your Family First" campaign

Manitoba Hydro, in partnership with Revy, True Value and Zellers, conducted a five-month campaign to encourage customers to install a carbon monoxide detector in their homes. Credits of \$10 were redeemed by 1 860 customers. Requests from customers with CO safety concerns were reduced to 1 719 calls during 2001-2002 from nearly 4 000 calls the previous year.

Strong links to our communities

Our continuing support for the Island of Lights in Portage la Prairie and the Festival of Lights Parade in Winnipeg under our Power Smart name helped garner top prize recognition for these two cities in a national competition.

The National Winter Lights competition acknowledged both Portage la Prairie and Winnipeg in their respective population categories.

In support of Manitoba Hydro's regional sponsorship of the National Aboriginal Achievement Awards, Manitoba Hydro offered a creativity contest targeted at Aboriginal youth across the province.

One winner, selected from each of the Environmental, Cultural and Historical categories, attended the national awards ceremony as our guest. As well, one of this year's achievement award recipients, Michael Neepinak, brought his inspirational message to a gathering of Manitoba Aboriginal students.

In November 2001, Manitoba Hydro, along with the Manitoba Electrical Museum, Inc., opened the doors of the newly established Manitoba Electrical Museum & Education Centre in Winnipeg to the public. The Museum, once the old Harrow Terminal Station, houses a vast collection of electrical artifacts collected by retired Manitoba Hydro and electrical industry employees. Throughout its historical portrayal of electrical

development in the province, the Museum also incorporates an educational component as well as addressing energy conservation and safety. School groups touring the facility have expressed enthusiasm over the educational value provided to students learning about electricity, how it is produced in Manitoba and its historical roots. The Museum was also honoured by Heritage Winnipeg for its efforts in the refurbishment and adaptive reuse of the Harrow Terminal Station.

As part of the 50th Anniversary of the Manitoba Hydro-Electric Board, Manitoba Hydro worked with the village of Powerview on the Winnipeg River to establish a 50th Anniversary Park. Located downstream of the Pine Falls Generating Station powerhouse, it provides local residents and tourists alike a great place to view the station and river.

A snowmobile safety session conducted by Jenpeg Generating Station employees was held for 100 Cross Lake students. As part of Cross Lake's hosting of the Summer Indigenous Games, Jenpeg Generating Station staff also set up an information booth to direct visitors to the Cross Lake community.

Innovation brings measurable benefits

In our search for improving the way we do business, we have established long-standing relationships with Manitoba universities, industry, research facilities, and manufacturers to seek out and support innovative research and development efforts. As well, in-house projects continue to be actively supported, helping us maintain our status as an industry leader. While some are relatively new initiatives, such as the Prairie Plant Systems underground plant growth chamber in Flin Flon, others – such as the Pinawa Fish Research Facility – are a continuation of long-standing projects demonstrating a true commitment to the process. Other key alliances are with the Canadian Electricity Association, the Canadian Hydropower Association, the Canadian Gas Association, the American Gas Association and the U.S.-based Electric Power Research Institute.

In 2001, Manitoba Hydro created a new business initiative called Worldwide Integrated Rating Enhancement (W.I.R.E.) Services, to provide transmission line verification and re-rating services to the electric utility industry. With its exclusive agreement with TerraPoint LLC of Houston, W.I.R.E. Services is able to improve the efficiency and reliability on transmission lines using LiDAR technology. During 2001-2002, the initiative won a contract to provide its LiDAR data collection and rating analysis for 135 kilometres of 138 kV transmission line for SaskPower.

Subsidiaries continue to make inroads

The Manitoba HVDC Research Centre Inc. began its third year of operations as a subsidiary of Manitoba Hydro, achieving three significant milestones that support the corporate strategic initiatives of Manitoba Hydro. The first was the development and adoption of a comprehensive five-year research program. The second milestone was the release of a new product marketed by Boston-based Doble Engineering Company called PSCAD/Relay. An internal release of the Centre's premiere product, PSCAD V4, was also accomplished in 2001-2002.

The HVDC Centre has over 1 000 customers in 60 countries benefiting from its highly successful Manitoba-made PSCAD power system simulation software.

The Centre continues to promote a collaborative research approach through its strong partnership with Manitoba Hydro and Manitoba Hydro International, the Power Systems Laboratory at the University of Manitoba, RTDS Technologies as well as industrial players such as ABB and Siemens.

In 15 years of operation, Manitoba Hydro International Ltd. (MHI) and its predecessor, Manitoba Hydro's Export Services department, has provided utility consulting training and management services to more than 70 client organizations in over 40 countries. It is recognized as a provider of high quality utility services to the international power sector. All obligations are undertaken with due regard for the principles of sustainable

development and MHI is proud of its long standing accomplishments in successfully delivering training and technology transfer programs to utilities around the world.

Assignments in 2001-2002 included the continuation of projects in Scotland, India, and Jamaica. A project to provide financial management assistance for the Egyptian Electricity Authority was concluded in November 2001.

As part of a consortium, MHI is in its fourth year of a five-year project to revamp the electrical sector in the south Central American countries of El Salvador, Nicaragua, Honduras and Guatemala. To date, 45 staff have been involved in this project. The latest initiative is to provide a Gender Equity manual for Guatemala.

Another major assignment, along with other partners, is the five-year Canadian International Development Agency's (CIDA) funded project to provide services related to the Southeast European Electrical System Technical Support project in the Balkan states. Some staff have transferred to Serbia and arrangements are being made to provide assistance on substation design, telecommunications and energy management systems.

Technical support is also being provided to New Brunswick Power as that utility seeks assistance in contract preparation for a new 345 kV international transmission line and technical assistance on preparing for a National Energy Board hearing on this project.

Financial Review

**Management's Discussion and
Analysis 30**

Management Report 41

Auditors' Report 42

**Consolidated Statement
of Income 43**

**Consolidated Statement
of Retained Earnings 43**

**Consolidated Balance
Sheet 44**

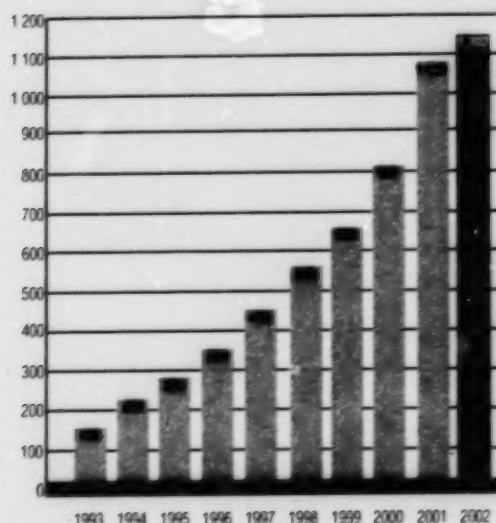
**Consolidated Statement
of Cash Flows 46**

**Notes to the
Consolidated
Financial Statements 47**

**Consolidated Financial
Statistics —
A 10-year overview 62**

Management's Discussion and Analysis

Retained Earnings
millions of dollars



Financial Review

Manitoba Hydro's consolidated net income for the year ended March 31, 2002 amounted to \$214 million compared to \$270 million in the previous fiscal year. The decrease in net income of \$56 million is the net result of increases in finance expense, water rentals, and fuel & power purchases partially offset by increases in extraprovincial sales. Retained earnings improved from \$1 088 million at March 31, 2001 to \$1 302 million at March 31, 2002.

Consolidated Financial Results

	2001-02 millions of dollars	2000-01 millions of dollars	Change (%)
Gross revenues			
Electricity sales within Manitoba	797	789	1
Extraprovincial electricity sales	588	480	23
Natural gas sales	479	504	-5
Total	1 864	1 773	5
Expenses			
Electric	1 164	1 002	16
Gas (including cost of gas sold)	486	501	-3
Total	1 650	1 503	10
Net income	214	270	-21

Electrical Operations

	billions of kilowatt-hours		
Generation – Integrated system	32.6	32.7	-
Energy sales – Manitoba customers	20.5	20.1	2
Extraprovincial customers	12.3	12.2	1

thousands of kilowatts

Manitoba peak load	3 760	3 637	3
---------------------------	--------------	--------------	----------

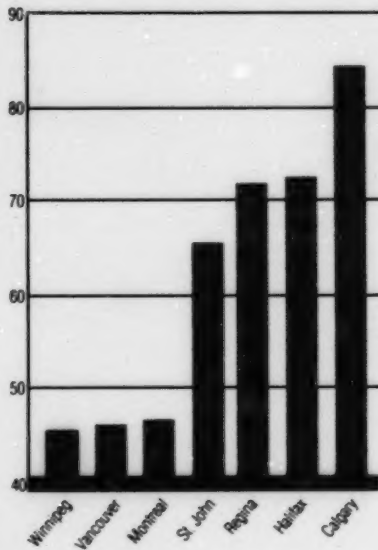
Gas Operations

	billions of cubic feet		
Gas sales			
Residential	22.8	24.7	-8
Commercial/Industrial	31.7	34.4	-8
	54.5	59.1	-8
Transportation	17.7	17.6	-
Total	72.2	76.7	-6

Management's Discussion and Analysis

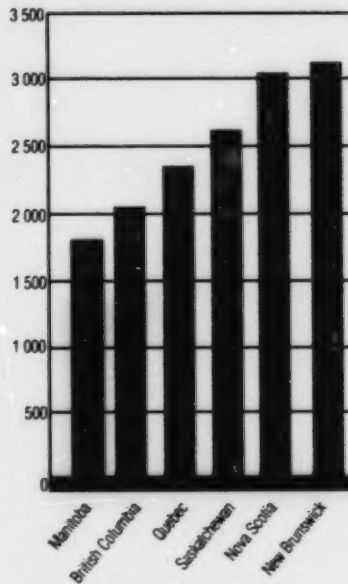
Residential Electric Bills

750 kW.h per month as of May 1, 2002
dollars



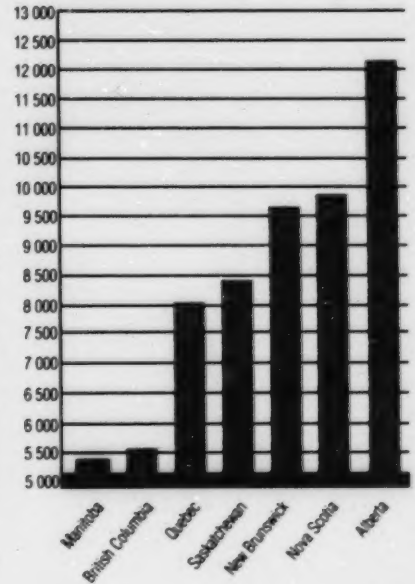
Industrial Electric Bills

100 MW and 62 GW.h as of May 1, 2002
thousands of dollars



General Service Medium Bills

300 kW and 120 000 kW.h per month
as of May 1, 2002
dollars



Electrical Operations

Record sales in the export market and ongoing control over expenditures have allowed Manitoba Hydro to maintain its status of having the lowest domestic electricity rates of any major utility in North America. Large industrial customers of Manitoba Hydro have not had an increase in their electricity rates since April 1992, while residential and small commercial customers have not had their electricity rates changed since April 1997. As a result of a policy initiative of the Provincial Government, uniform electricity rates were implemented throughout Manitoba effective November 1, 2001. Accordingly, electricity customers outside the City of Winnipeg will experience bill decreases of \$32.28 to \$121.32 per year, depending upon the rate zone in which they were previously served. The financial impact of implementing uniform rates will be approximately \$14 million per year and this cost will be absorbed by the Corporation.

Revenues

Total revenues from electricity operations amounted to \$1 385 million or \$116 million greater than 2000-01. Of the total electricity revenue, \$797 million or 58% was derived from power sales within the province, while \$588 million or 42% was derived from the export power market. In total, electricity revenues rose by 9% over the previous year.

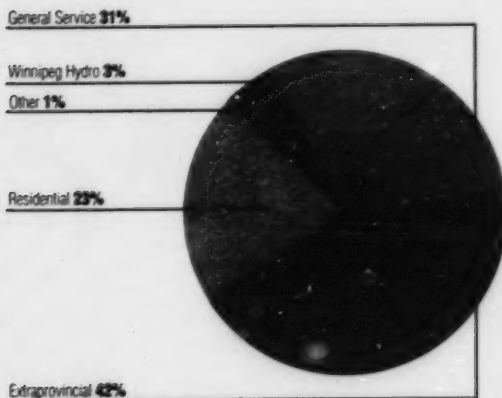
Management's Discussion and Analysis

Manitoba Electricity Sales

Revenues from electricity sales in Manitoba increased to \$797 million from \$789 million, an increase of \$8 million or 1% from the previous year. Electricity consumption in Manitoba was 20.5 billion kilowatt-hours, 0.4 billion kilowatt-hours more than the 20.1 billion kilowatt-hours consumed in the 2000-01 fiscal year. The increase was primarily a result of higher industrial customer demand.

Power sales within Manitoba	2001-02 millions of dollars	2000-01	Change (%)
Residential customers	314	320	-2
General service customers	425	415	2
Winnipeg Hydro	47	46	2
Other	11	8	38
Total	797	789	1

Source of 2002 Revenue Electricity



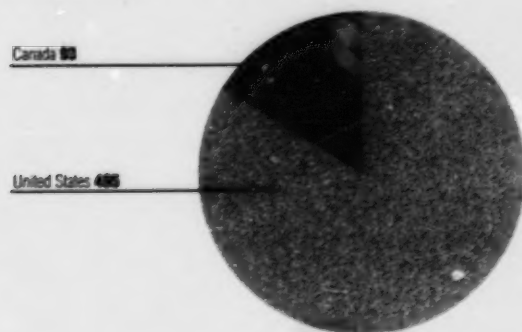
Revenue from sales to residential customers for 2001-02 decreased by \$6 million to \$314 million mainly as a result of the milder weather experienced during the past year's heating season. The number of residential customers increased by 2 176 during the year, and totalled 355 473 at March 31, 2002. Revenue from general service customers, comprised of the commercial and industrial sector, increased by \$10 million to \$425 million for 2001-02. The total number of general service customers increased by 319 to 50 062 at March 31, 2002. Revenue from Winnipeg Hydro amounted to \$47 million, an increase of \$1 million from 2000-01. As the cost-sharing agreement between the two utilities expired on March 31, 2000, billings to Winnipeg Hydro were based on an interim wholesale rate.

Management's Discussion and Analysis

Extraprovincial Power Sales

For the sixth consecutive year, Manitoba Hydro achieved a new record of sales revenue on the extraprovincial market. Revenues reached an all-time high of \$588 million, \$108 million higher than 2000-01. Of the total

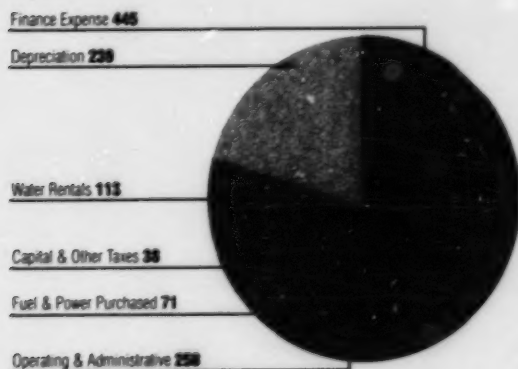
Extraprovincial Power Sales 2002
millions of dollars



increase, \$80 million was attributable to the application of higher foreign currency translation rates under the Corporation's exposure management program, while \$28 million was the result of higher sales rates on the export market.

Energy sold outside Manitoba was 11.8 billion kilowatt-hours in 2001-02, 0.3 billion kilowatt-hours less than in 2000-01. Of the total extraprovincial revenue, \$495 million or 84% was derived from the U.S. market, while \$93 million or 16% was from sales to other Canadian provinces.

Distribution of Expenses Electrical
millions of dollars



Expenses

Total expenses of the electricity segment amounted to \$1 164 million, an increase of \$162 million or 16% from the previous fiscal year. The increase in expenses was largely due to an increase in finance charges of \$58 million, water rentals and assessments of \$57 million, and fuel and power purchases of \$23 million.

Expenses	2001-02 millions of dollars	2000-01	Change (%)
Operating and administrative	258	246	5
Depreciation and amortization	239	227	5
Water rentals and assessments	113	56	102
Fuel and power purchased	71	48	48
Capital and other taxes	38	38	-
Finance	445	387	15
	1 164	1 002	16

Management's Discussion and Analysis

Operating and Administrative Expenses

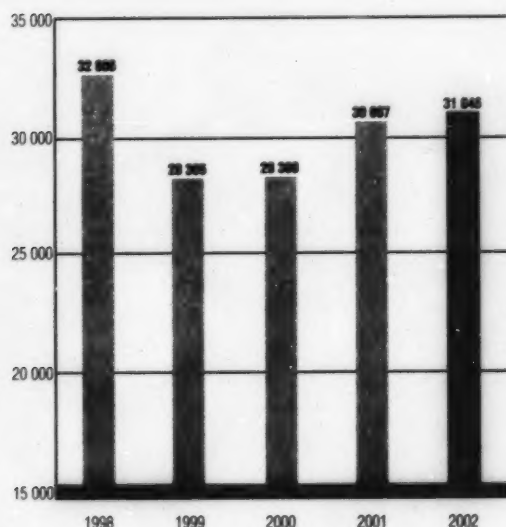
Operating and administrative expenses include the labour, material and overhead costs associated with operating, maintaining and administering the facilities of the Corporation. In 2001-02, operating and administrative expenses amounted to \$258 million, an increase of 5% or \$12 million over 2000-01. Increased costs were mainly attributable to increased maintenance on the generation, transmission and distribution facilities of the Corporation.

Depreciation

Depreciation expense totaled \$239 million in 2001-02, an increase of \$12 million or 5% over 2000-01. Stations and Distribution depreciation increased by \$5 million as a result of various projects being placed into service during the year. Generation depreciation increased by \$2 million mainly due to planning study expenditures on future hydraulic projects. Other depreciation increased by \$5 million mainly related to additional investment in information technology systems during the year.

Depreciation Expense	2001-02 millions of dollars	2000-01	Change (%)
Generation	87	85	2
Transmission	10	10	-
Stations	50	48	4
Distribution	48	45	7
Other	44	39	13
Total	239	227	5

Hydraulic Generation GW.h

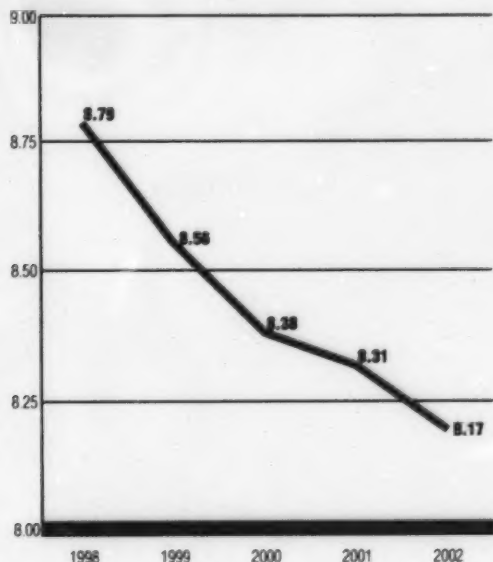


Water Rental and Assessments

Water rental costs are incurred for the use of water resources by Manitoba Hydro in the operation of its hydroelectric generating stations. The \$57 million increase in water rentals reflects an increase to water rental rates from \$1.63 per megawatt-hour to \$3.34 per megawatt-hour effective April 1, 2001. Hydraulic generation increased to 31.0 billion kilowatt-hours in 2001-02 from 30.7 billion kilowatt-hours in 2000-01.

Management's Discussion and Analysis

Weighted Average Interest Rate
%



Net Capital Expenditures in 2002
Electrical
millions of dollars



Fuel and Power Purchased

Fuel and power purchased amounted to \$71 million in 2001-02, an increase of \$23 million from the previous year. The increase was comprised of increased power purchases of \$31 million and decreased coal consumed for thermal generation of \$8 million. The increase in the cost of power purchases was primarily a result of increased volumes of power purchased to support contracted export sales and increased market purchase rates. In total, power purchases and thermal generation amounted to 1.9 billion kilowatt-hours compared to 1.8 billion kilowatt-hours in the previous year.

Finance Expense

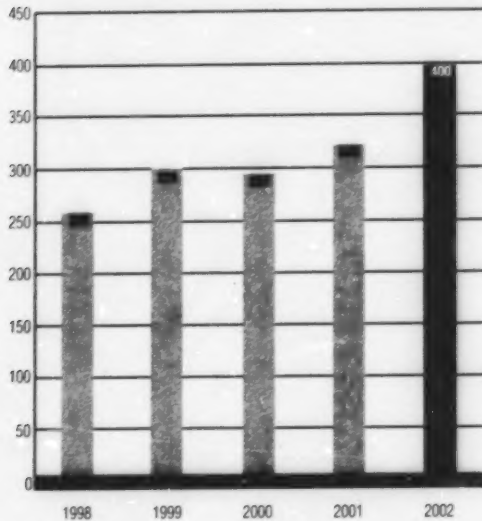
Finance expense totaled \$445 million in 2001-02, an increase of \$58 million or 15% over the previous year. Of the total increase, \$47 million was attributable to the application of higher foreign currency translation rates under the Corporation's exposure management program, while \$17 million was related to an increase in the debt guarantee fee from 0.70% to 0.95% effective April 1, 2001. These increases were partially offset by low interest rates on floating rate debt. Overall, the Corporation's weighted average interest rate declined from 8.31% in 2000-01 to 8.17% in 2001-02. This marks the fifth consecutive year that borrowing rates have declined.

Capital Expenditures

Expenditures for capital construction in the electricity sector totaled \$400 million in 2001-02 compared to \$325 million during the previous fiscal year. Capital expenditures in 2001-02 for generation system rehabilitation, upgrade, and protection

Management's Discussion and Analysis

Net Capital Expenditures Electrical
millions of dollars



projects were \$132 million. This includes \$87 million for a new natural gas-fired combustion turbine plant being installed at Brandon and \$19 million for the Selkirk Generating Station fuel conversion project. New transmission line and transmission upgrade projects totaled \$41 million including a \$12 million expenditure on the new 230 kV line being constructed in the western area of the province to the U.S. border to facilitate increased export capability. Substation additions and upgrades were \$46 million and distribution system additions and modifications were \$99 million to meet the service requirements of customers throughout the province. The remaining capital expenditures of \$82 million were for replacements of equipment and facilities and for new information technology development projects.

Natural Gas Operations

Centra Gas Manitoba Inc. (Centra Gas) is a wholly-owned subsidiary of Manitoba Hydro and is the principal distributor of natural gas in The Province of Manitoba. Centra Gas serves approximately 249 500 customers in the residential, commercial and industrial sectors.

The natural gas operation incurred a net loss of \$7 million for 2001-02 compared to net income of \$3 million in the previous fiscal year. The net loss in the current year was mainly attributable to reduced heating load associated with the milder than normal winter in 2001-02.

Natural Gas Deliveries
billions of cubic feet

Small General Service **25.7**

T-Service **17.7**

Large Commercial & Industrial **5.9**

Interruptible **5.8**

Large General Service **17.9**



Natural Gas Expenses
millions of dollars

Operating & Administrative **48**

Finance Expense **37**

Depreciation **21**

Capital & Other Taxes **17**

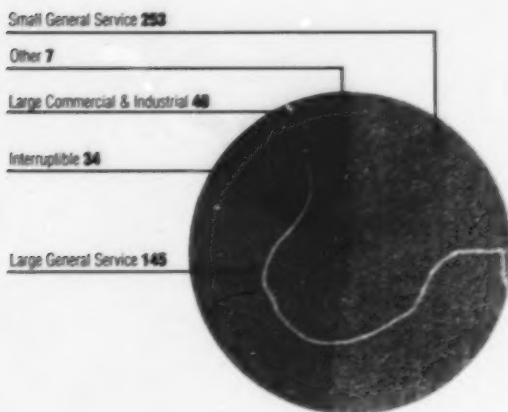
Cost of Gas Sold **385**



Management's Discussion and Analysis

Natural Gas Revenue

millions of dollars



Natural Gas Revenues

Gross revenues from the sale and distribution of natural gas during 2001-02 were \$479 million, including \$365 million for the cost of gas sold. Excluding the cost of gas sold, which is a pass-through to customers with no markup by Centra Gas, net revenues in 2001-02 were \$114 million, a \$6 million or 4% decrease from the previous year. The decrease in net revenues was primarily weather-related. Natural gas deliveries were 72 billion cubic feet (Bcf) in fiscal 2001-02 compared to 77 Bcf in 2000-01. Customer additions were 1 277 for the year, bringing the total customer base to 249 351 at March 31, 2002.

Since the acquisition of Centra Gas by Manitoba Hydro in 1999, there have been no rate changes to natural gas customers except for commodity-related gas price changes. Following extraordinary high natural gas prices experienced in the winter of 2001, there was a decline in natural gas prices that continued throughout most of 2002. As a result of reductions in natural gas costs, and in accordance with Centra's quarterly rate setting methodology, Centra passed along three consecutive primary gas rate decreases to customers. An annualized decrease to residential customers of 15.9% was implemented on August 1, 2001, a decrease of 5.7% was implemented on November 1, 2001, and a further decrease of 2% was implemented on February 1, 2002.

Natural Gas Expenses

Expenses of the natural gas segment, net of cost of gas sold, were \$121 million in 2001-02, \$4 million or 3% higher than the previous year. The increase was mainly attributable to higher financing costs resulting from increased gas in storage and normal increases to operating, maintenance, and administrative costs.

Gross capital expenditures for the year were \$37 million (2001 - \$27 million), of which \$19 million (2001 - \$7 million) was funded through customer contributions. The capital expenditure program reflects the continuing growth in new business, system improvement, and other expenditures required to meet the needs of new and existing customers.

Centra purchased 34 Bcf (2001 - 35 Bcf) of natural gas for system supply which was priced on an indexed basis under a long-term contract with Mirant Canada Energy Marketing Ltd. (formerly TransCanada Gas Services). Centra also purchased system supply under short-term pricing arrangements. In addition, Centra delivered natural gas on behalf of brokers that participate in the Direct Purchase of natural gas. In 2001-02, there were two services provided by Centra Gas to facilitate the transportation of Direct Purchase supplies - Buy/Sell Service and Western Transportation Service (WTS). In each service, the consumer arranges either individually or through a broker, a gas source in Western Canada and Centra then transports the gas to the consumer. At March 31, 2002 there were 19 062 Buy/Sell customers (2001 - 32 442) and 34 735 WTS customers (2001 - 9 157) receiving gas under Direct Purchase arrangements.

Management's Discussion and Analysis

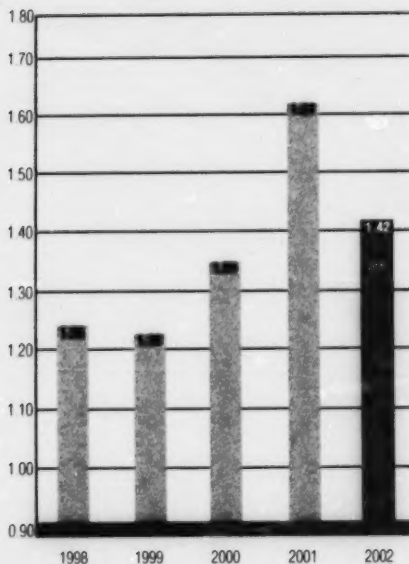
Financial Targets

The Corporation has three primary financial targets to enhance its financial strength, to contribute to rate stability and predictability, and to protect the Corporation and its customers from a variety of other risks. The financial targets are:

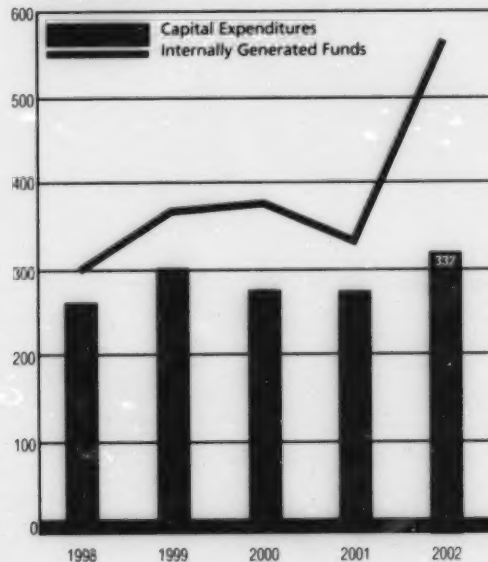
Interest Coverage

Maintain an annual minimum gross interest coverage ratio of 1.20. The interest coverage ratio indicates the extent to which net income is sufficient to pay gross interest on debt. The Corporation's interest coverage ratio declined from 1.62 in 2000-01 to 1.42 in 2001-02 as a result of lower earnings and increased finance expense.

Interest Coverage Ratio



Net Capital Construction Expenditures and Internally Generated Funds
millions of dollars

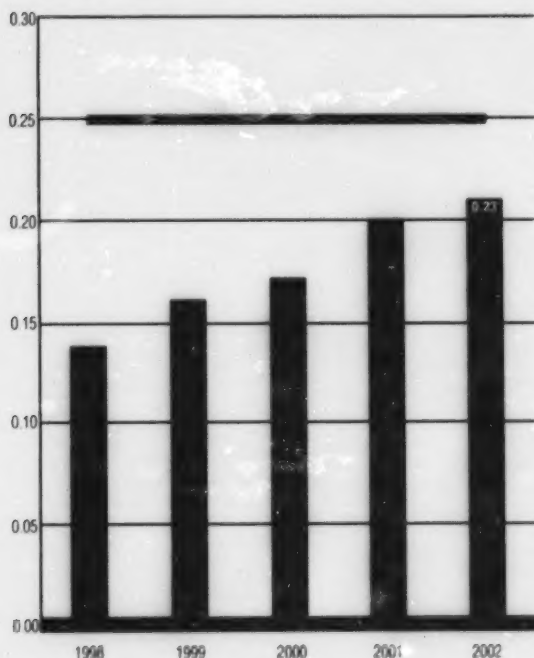


Cash Flow/Capital Expenditures

Fund all capital construction requirements from internal sources (except during periods when major generation and/or major transmission facilities are being added to the system). In 2001-02, internally generated funds exceeded net capital construction expenditures (excluding construction costs of the Brandon combustion turbine generation facility) by \$222 million resulting in a cash flow/capital expenditure ratio of 167% compared to 118% in 2000-01. Increased cash flows in 2001-02 were due to the timing of disbursements and receipts related to high gas commodity prices in 2000-01.

Management's Discussion and Analysis

Equity Ratio



Debt/Equity

Achieve a minimum debt/equity ratio of 75:25 by 2005-06. The debt/equity ratio indicates the relative percentage of assets financed through debt versus equity. The Corporation's debt/equity ratio improved from 80:20 at March 31, 2001 to 77:23 at March 31, 2002.

Outlook

In February 2002, Manitoba Hydro provided the City of Winnipeg with an offer to purchase the City-owned Winnipeg Hydro. The offer was accepted in principle by the City of Winnipeg and assuming the successful closing of a purchase agreement, Manitoba Hydro will acquire all of the net assets of Winnipeg Hydro during the 2002-03 fiscal year. The acquisition of Winnipeg Hydro marks the start of a new era for energy customers in Manitoba with one electricity supplier for the entire province. All Centra Gas customers are now also Manitoba Hydro customers. Customers that were previously served by Winnipeg Hydro can now get full access to Power Smart programs as well as the benefits of the Centra acquisition, such as one call – one locate and more convenient bill paying options. Efficiencies will be gained by eliminating duplicative functions and the complex contractual arrangement that previously existed between Manitoba Hydro and Winnipeg Hydro. The timing of projects such as the potential upgrading of the Pointe du Bois Generating Station can now be fully evaluated against other supply options in the Manitoba Hydro system.

Management's Discussion and Analysis

The industrial sector continues to lead domestic electricity growth in Manitoba and is expected to result in a 1.8% average growth rate over the next ten years. Low electricity prices offer Manitoba businesses a competitive advantage over other jurisdictions and are a strong factor in the industrial load growth. On the residential side, anticipated growth is more modest, due in part to the higher efficiency of new homes and heating equipment. In addition, residential, commercial and industrial customers will all benefit from energy efficiency savings offered by the Corporation's Power Smart programs.

On the export market, Manitoba Hydro foresees continuing robust market conditions. The Corporation will continue to pursue enhanced profitability of export sales through strategies to firm up supply for shorter term contracts. Ongoing and active participation in competitive export markets combined with continued prudent expenditure control will enable further improvements to Manitoba Hydro's financial position while simultaneously maintaining rates at the same level since 1997.

Manitoba Hydro will meet the growing electricity requirements of its provincial load and that of firm export commitments through the improvement of existing facilities and additional generation such as the new Brandon combustion turbines. This project, plus transmission enhancements such as the Bipole III high voltage transmission line on the east side of Lake Winnipeg will help to meet the multiple objectives of serving domestic load, improving reliability, increasing export levels and reducing the dependency upon imports during drought conditions.

Manitoba Hydro is also considering advancing the construction of new hydraulic generating stations earlier than needed for domestic requirements, in order to take advantage of the lucrative export market. Export revenues provide an important role in keeping Manitoba electricity rates low. Manitoba Hydro is actively negotiating with northern First Nation communities that may be impacted by these projects with the interest in jointly developing such projects on a partnership basis. Such arrangements would allow for better understandings between Hydro and the First Nations as well as providing the communities with a lasting legacy.

Gas customers continue to benefit from synergies resulting from Centra's acquisition by Manitoba Hydro, having had no general rate increases for a four-year period. With respect to commodity-based price increases, Centra's rate management mechanisms combined with the Home Energy Savings Programs implemented have been successful in protecting gas customers from some of the steep hikes in the market price of natural gas. Centra Gas will continue to use whatever cost-efficient means are available to protect customers against extreme volatility and to secure and manage natural gas supplies to meet the needs of gas customers in the most efficient and economical manner. Expansion into new franchise areas for natural gas will be pursued in cases where it is economical for new customers while not being detrimental to the existing gas customer base.

The acquisition of Winnipeg Hydro, the continued integration of gas and electric operations and the exploration of generation development opportunities are actions undertaken by the Corporation to expand its business. Enhanced services and improved efficiencies enable the Corporation to weather the financial storms resulting from rapid changes in regulation and the energy industry while maintaining its stature as one of the lowest cost energy providers in North America.

Management Report

The accompanying consolidated financial statements are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada, applied on a basis consistent with that of the preceding year. In management's opinion the consolidated financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available up to July 3, 2002. The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Management maintains internal controls to provide reasonable assurance that the assets of the Corporation are properly safeguarded and that the financial information is reliable, timely and accurate. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and to the Audit Committee of the Board.

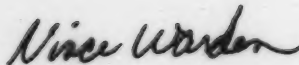
The responsibility of the external auditors, KPMG LLP, is to express an independent, professional opinion on whether the consolidated financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditors' Report outlines the scope of their examination and their opinion.

The Audit Committee of the Board is composed of three members of the Manitoba Hydro-Electric Board. The Audit Committee of the Board meets with representatives of the external auditors, the internal auditors and management to satisfy itself that each group has properly discharged its respective responsibility and to review the consolidated financial statements before recommending approval by the Board. The Board has reviewed the Annual Report in advance of its release and has approved its content and authorized its publication.

On behalf of Management:



R.B. Brennan, FCA
President and
Chief Executive Officer



V.A. Warden, CMA
Vice-President,
Finance & Administration
and Chief Financial Officer

Auditors' Report

To The Manitoba Hydro-Electric Board

We have audited the consolidated balance sheet of The Manitoba Hydro-Electric Board as at March 31, 2002 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Winnipeg, Canada
July 3, 2002

Consolidated Statement of Income

For the year ended March 31

		Notes	2002	2001	
			millions of dollars		
Revenues					
Electric	Manitoba		797	789	
	Extraprovincial	2	588	480	
Gas	Commodity		365	384	
	Distribution		114	120	
			1 864	1 773	
Cost of gas sold			365	384	
			1 499	1 389	
Expenses					
Operating and administrative			304	290	
Depreciation and amortization			260	249	
Water rentals and assessments			3	113	56
Fuel and power purchased			4	71	48
Capital and other taxes			55	56	
			803	699	
Income before finance expense			696	690	
Finance expense			5	482	420
Net income			214	270	

Consolidated Statement of Retained Earnings

For the year ended March 31

	2002	2001
	millions of dollars	
Retained Earnings, Beginning of Year	1 088	818
Net income	214	270
Retained Earnings, End of Year	1 302	1 088

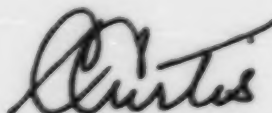
The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheet

As at March 31

	Notes	2002	2001
millions of dollars			
Assets			
Capital Assets			
In service		9 072	8 762
Less accumulated depreciation		2 834	2 609
		6 238	6 153
Construction in progress		388	275
	6	6 626	6 428
Current Assets			
Bank balances and temporary investments	13	14	-
Accounts receivable, accrued revenue and other assets	7	386	476
Interest receivable		25	16
Materials and supplies, at average cost		84	59
		509	551
Other Assets			
Sinking fund investments	8	1 515	1 350
Pension assets	9	473	443
Deferred debt costs	10	903	880
Other deferred assets	11	379	314
		3 270	2 987
		10 405	9 966

Approved on behalf of the Board:


Victor H. Schroeder, QC
Chairman of the Board

Charles E. Curtis, FCA
Chairman of the Audit Committee

	Notes	2002	2001
		millions of dollars	
Liabilities and Retained Earnings			
Long-Term Debt			
Long-term debt net of sinking fund investments		5 622	5 618
Sinking fund investments	8	1 515	1 350
	12	7 137	6 968
Current Liabilities			
Bank overdraft	13	-	2
Accounts payable and accrued liabilities		209	192
Notes payable	14	180	190
Accrued interest		100	109
Current portion of long-term debt		524	496
		1 013	989
Other Liabilities			
Deferred liabilities and credits	15	230	254
Pension liability	9	422	386
		652	640
Contributions in Aid of Construction		301	281
Retained Earnings		1 302	1 088
		10 405	9 966

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended March 31

	Note	2002	2001
		millions of dollars	
Cash Provided From Operations			
Cash receipts from customers		1 860	1 664
Cash paid to suppliers and employees		(839)	(912)
Interest paid		(556)	(531)
Interest received		89	113
		554	334
Cash Provided From Financing			
Proceeds from long-term debt		1 259	292
Sinking fund withdrawals		-	275
Retirement of long-term debt		(1 096)	(609)
Discount (premium) on long-term debt		(11)	4
Mitigation liability		(19)	(2)
Notes payable issued (retired)		(33)	210
		100	170
Cash Used For Investment			
Additions to capital assets, net of contributions		439	362
Sinking fund payment		127	119
Other		72	40
		638	521
Increase (Decrease) In Cash		16	(17)
Cash At Beginning Of Year		(2)	15
Cash At End Of Year	13	14	(2)

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements For the year ended March 31, 2002

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the financial statements of the Corporation and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

a) CAPITAL ASSETS

Property, plant and equipment are stated at cost which consists of contracted services, direct labour, material and expense, a proportionate share of overhead costs and interest applied at the effective rates incurred in financing construction. Finance expense is allocated to construction until a capital project becomes operational or a decision is made to abandon, cancel or indefinitely defer construction. Once the transfer to in service is made, finance expense allocated to construction ceases and depreciation and finance expense charged to operations commences.

b) DEPRECIATION

Depreciation is provided on a straight-line remaining life basis. The major components of generating stations are depreciated over the lesser of the remaining life of the major component or the remaining life of the associated generating station.

The range of estimated service lives of each major asset category is as follows:

Hydroelectric generation	40 - 100 years
Thermal electric generation	35 - 45 years
Transmission lines and stations	20 - 80 years
Distribution lines (Electrical and Gas)	10 - 60 years

Provision for removal costs of major property, plant and equipment is charged to depreciation expense on a straight-line basis over the remaining service lives of the related assets. In accordance with utility accounting practices, retirements of these assets are charged to accumulated depreciation with no gains or losses reflected in operations. The estimated service lives of the assets and the estimate of their removal costs are based upon depreciation studies conducted periodically by the Corporation. A provision for estimated future costs of removal and site restoration costs related to the decommissioning of the thermal generating stations is recorded as a deferred liability.

c) FOREIGN CURRENCY TRANSLATION

Revenues and expenditures resulting from transactions in foreign currencies are translated into Canadian dollar equivalents at exchange rates in effect at the transaction dates except to the extent that revenues are used to hedge future long-term foreign debt obligations. In accordance with the Corporation's exposure management program, revenues used as hedges are firm U.S. revenues, which are translated at the historical book value exchange rates of the respective U.S. debt obligations to which the firm revenues are linked and for which they, together, form an effective hedge. The maturity dates of U.S. debt obligations extend through 2023.

Notes to the Consolidated Financial Statements

United States Long-Term Debt and Sinking Fund Investments

Long-term monetary assets and liabilities denominated in foreign currencies are translated into Canadian currency at the exchange rate prevailing at the balance sheet date. The exchange gains or losses, resulting from the translation of these long-term monetary items, which are related to liabilities hedged by future U.S. revenue streams, are deferred to the date of repayment.

Current Assets and Current Liabilities

Current monetary assets and liabilities denominated in foreign currencies are translated into Canadian currency at the exchange rate prevailing at the balance sheet date. The exchange gains or losses are credited or charged to operations.

d) PENSION AND OTHER EMPLOYEE BENEFITS

An independent actuary using the accrued benefit method and management's best estimate assumptions determines the costs of pension benefits. Pension expense is comprised of the cost of pension benefits provided during the year plus the amortization of the cost of past service benefits and experience gains and losses. The unamortized present value of past service benefits and actuarially determined experience gains or losses are recognized in the financial statements as a deferred asset or credit. Effective April 1, 2000, the Corporation adopted the "corridor method" of amortizing actuarial gains and losses. The amortization of this balance is recognized only to the extent that the cumulative net actuarial gain or loss exceeds 10% of the greater of the accrued benefit obligation at the beginning of the year and the fair market value of plan assets at the beginning of the year. When required, the excess of the cumulative gain or loss balance is amortized over the expected average remaining service life of the employees covered by the plan.

All pension assets are stated at current market value.

Other employee benefits earned by employees include vacation, vested sick leave and long-term disability. Where applicable, the cost of these benefits is determined based on management's best estimate of discount rates, salary escalation and retirement ages of employees.

Vacation expense in respect of employees' services rendered to the date of initial recognition of the liability is recognized in the financial statements as a deferred asset and is being amortized on a straight-line basis over a period of 10 years.

e) DEBT DISCOUNT AND EXPENSE

Debt discount and associated issue costs are amortized to finance expense on a straight-line basis over the life of the respective debt.

Notes to the Consolidated Financial Statements

f) SINKING FUND INVESTMENTS

The Corporation records sinking fund investments at par value. The difference between the cost and the par value of each investment is recorded as a premium or discount and is amortized on a straight-line basis over the remaining life of the investment. Any gain or loss on early disposal of investments is credited or charged to operations.

g) TEMPORARY INVESTMENTS

Temporary investments are recorded at cost.

h) PLANNING STUDIES

Planning studies costs are recorded as a deferred expense and are amortized on a straight-line basis over 15 years. The balance of the unamortized costs of a project which proceeds during the 15-year period is transferred to the capital cost of the project.

i) POWER SMART PROGRAMS

The costs of the Corporation's energy conservation programs, referred to as Power Smart programs, are deferred and amortized on a straight-line basis over periods of up to 15 years.

j) SITE RESTORATION COSTS

Site restoration costs are recorded as a deferred expense and are amortized on a straight-line basis over 15 years.

k) REVENUES

Customers' meters are read and billed on a cyclical basis. Revenues are accrued in respect of energy delivered for those cycles not yet billed.

l) RATE REGULATION

The prices charged for sales of electricity and gas within Manitoba are subject to review and approval by The Public Utilities Board of Manitoba.

m) CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions are required from customers whenever the costs of extending service exceed specified construction allowances. Contributions are amortized on a straight-line basis over the estimated service lives of the related capital assets.

n) COST OF GAS SOLD

Cost of gas sold is recorded at the same rates charged to customers. The difference between the recorded cost of gas and the actual cost of gas is carried as an account receivable or recorded as a deferred item and recovered or refunded in future rates.

Notes to the Consolidated Financial Statements

o) DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation utilizes derivative financial instruments to mitigate gas price volatility. Amounts paid or received under these derivative financial instruments are recognized as part of the actual cost of gas.

p) CENTRA GAS ACQUISITION

Costs associated with the acquisition of Centra Gas Manitoba Inc. (Centra Gas) have been deferred and are being amortized on a straight-line basis over a period of 30 years.

q) DEFERRED TAXES

The taxes paid by Centra Gas as a result of its change to non-taxable status on acquisition by Manitoba Hydro have been deferred and are being amortized, on a straight-line basis, over a period of 30 years.

r) GOODWILL

Goodwill represents the value of the Corporation's investments in subsidiaries over and above the fair market value of the subsidiaries' net assets. Effective April 1, 2001, the Corporation implemented the new standard issued by the CICA on goodwill. Under the new standard, goodwill is no longer amortized but is instead tested annually for impairment. As of the date of adoption of the new standard, the unamortized balance of goodwill was \$62 million. The change in accounting policy resulted in a reduction in amortization expense related to goodwill of \$2 million for the year ended March 31, 2002. As the change was implemented prospectively, the amounts presented for prior periods have not been restated.

s) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Notes to the Consolidated Financial Statements

NOTE 2 EXTRAPROVINCIAL REVENUES

	2002	2001
	millions of dollars	
United States	495	371
Canada	93	109
	588	480

U.S. revenues designated as a hedge of U.S. denominated long-term debt are recorded at the historical book value rate of the associated debt. The effective exchange rate for translation of these revenues is \$1.00 U.S. = \$1.232 Canadian (2001 - \$1.00 U.S. = \$1.174 Canadian). For 2001, if U.S. revenue had been translated at average exchange rates prevailing throughout the year and those revenues designated as a hedge at the historical book value exchange rate of the associated debt, U.S. revenues would have amounted to \$451 million and total revenues would have amounted to \$560 million.

NOTE 3 WATER RENTALS AND ASSESSMENTS

	2002	2001
	millions of dollars	
Water rentals	107	51
Land rentals and assessments	6	5
	113	56

Water rentals are paid to the Province for the use of water resources in the operation of the Corporation's hydroelectric generating stations. Water rental rates during the year were \$3.34 per MW.h (2001 - \$1.63 per MW.h).

NOTE 4 FUEL AND POWER PURCHASED

	2002	2001
	millions of dollars	
Power purchased:		
United States	49	22
Canada	12	8
Thermal fuel	10	18
	71	48

For 2001, if U.S. purchases had been translated at average exchange rates prevailing throughout the year, U.S. purchases would have amounted to \$28 million and total fuel and power purchased would have amounted to \$54 million.

Notes to the Consolidated Financial Statements

NOTE 5 FINANCE EXPENSE

	2002	2001
	millions of dollars	
Investment on debt	587	540
Amortization of discount and expenses	11	6
Finance expense allocated to construction	(25)	(18)
Investment income	(91)	(108)
	482	420

Included in interest on debt is \$72 million (2001 - \$53 million) in respect of the Provincial Debt Guarantee Fee. The fee during the year was 0.95% of the total outstanding debt guaranteed by the Province (2001 - 0.70%).

U.S. sinking fund interest income designated as a hedge of U.S. denominated long-term debt is recorded at the historical book value exchange rate of the associated debt. The effective exchange rate for translation of these revenues is \$1.00 U.S. = \$1.232 Canadian (2001 - \$1.00 U.S. = \$1.174 Canadian).

For 2001, if interest on U.S. debt had been translated at average exchange rates prevailing throughout the year, total interest on debt for the year would have amounted to \$594 million.

NOTE 6 CAPITAL ASSETS

	2002			2001		
	millions of dollars					
	In Service	Accumulated Depreciation	Construction in Progress	In Service	Accumulated Depreciation	Construction in Progress
Generation	4 242	1 182	203	4 194	1 109	119
Transmission	672	180	22	645	168	24
Substations	1 670	663	62	1 594	613	64
Distribution	1 731	528	56	1 647	480	24
Other	757	281	45	682	239	44
	9 072	2 834	388	8 762	2 609	275

NOTE 7 ACCOUNTS RECEIVABLE, ACCRUED REVENUE AND OTHER ASSETS

Included in accounts receivable are deferred gas costs in the amount of \$45 million (2001 - \$120 million) which represent the difference between the actual cost of gas and the recorded cost of sales. Deferred gas costs will be recovered from customers in future billing periods during the next sixteen months.

NOTE 8 SINKING FUND INVESTMENTS

As provided by The Manitoba Hydro Act, the Corporation pays an annual sinking fund installment to the Minister of Finance of the Province of Manitoba of not less than 1% of the principal amount of the outstanding debt on the preceding March 31, and 4% of the balance in the sinking fund at such date.

Notes to the Consolidated Financial Statements

Payments to the sinking fund during the year were \$127 million (2001 - \$119 million). Income earned on sinking fund investments is included with investment income for the year.

Sinking funds are invested in government bonds and the bonds of highly rated corporations and financial institutions.

	2002	2001
	millions of dollars	
Canadian investments	572	563
U.S. investments	943	787
	1 515	1 350

Canadian investments have a weighted average term to maturity of 5.2 years (2001 - 5.2 years) and an effective yield to maturity of 6.46% (2001 - 6.89%). U.S. investments have a weighted average term to maturity of 3.2 years (2001 - 3.3 years) and an effective yield to maturity of 5.89% (2001 - 6.63%). U.S. investments are translated into Canadian currency at the exchange rate prevailing at the balance sheet date, \$1.00 U.S. = \$1.59 Canadian (2001 - \$1.00 U.S. = \$1.58 Canadian).

NOTE 9 PENSION ASSETS AND OBLIGATION

Manitoba Hydro employees are eligible for pensions under the Manitoba Civil Service Superannuation Fund (the Fund). The Fund is a defined benefit plan that requires the Corporation to contribute 50% of the pension disbursements made to retired employees. The Corporation fully funds its pension obligation.

The most recent actuarial valuation for the Corporation's obligation was performed with respect to the liability outstanding as at December 31, 2001. This valuation incorporated management's best estimate assumptions and took into consideration the long-term nature of the plan. The pension liability amounted to \$422 million at March 31, 2002 (2001 - \$386 million).

The significant actuarial assumptions adopted in measuring the Corporation's pension and other employee benefit obligations are as follows:

	2002	2001
Discount rate	7.25%	7.25%
Expected long-term rate of return on plan assets	8.00%	8.00%
Rate of compensation increase, including inflation, merit and promotions	3.00 - 4.00%	3.50 - 4.00%

Notes to the Consolidated Financial Statements

The Manitoba Civil Service Superannuation Board manages the assets on behalf of the Corporation. Pension assets are valued at market rates and are invested as follows:

	2002	2001
	millions of dollars	
Bonds and debentures	186	163
Equities	216	200
Mortgages	9	34
Short-term investments	22	15
Real estate	40	31
Fair value of plan assets	473	443
Accrued benefit obligation	422	386
Fund status – plan surplus	51	57
Net accrued valuation adjustments	31	10
Net expense	8	6
Benefits paid	18	17

The return on pension fund assets for the year ended March 31, 2002 was 6.7% (2001 - 4.4%). The weighted average term to maturity on fixed income investments is 13.9 years.

Effective January 1, 2001 and June 21, 2001, the former salaried employees and union employees respectively of Centra Gas ceased earning current service benefits under the Centra Gas pension plans and began earning benefits under the Civil Service Superannuation Plan. Benefit entitlement earned by salaried employees up to December 31, 2000 and union employees up to June 20, 2001 will be paid out of the curtailed plans.

Information about the curtailed Centra Gas defined benefit pension plans as at March 31, in aggregate are as follows:

	2002	2001
	millions of dollars	
Fair value of plan assets	48	49
Accrued benefit obligation	59	57
Fund status – plan deficit	11	8
Net accrued valuation adjustments	11	6
Net expense	1	1
Benefits paid	3	3
Employer contributions	1	2

Notes to the Consolidated Financial Statements

NOTE 10 DEFERRED DEBT COSTS

	2002	2001
	millions of dollars	
Deferred foreign exchange	809	792
Debt discount and expense	53	53
Premium on purchase of sinking fund investments	20	14
Other	21	21
	903	880

Deferred foreign exchange represents the net translation gains and losses on U.S. long-term monetary items that will be offset through the translation of future U.S. firm revenue streams. In prior years this amount was netted against the debt obligation. The 2001 comparative figures have been reclassified to conform to the presentation adopted in 2002.

NOTE 11 OTHER DEFERRED ASSETS

	2002	2001
	millions of dollars	
Power Smart programs	43	39
Planning studies	122	92
Goodwill	62	62
Deferred taxes	49	51
Pension valuation	31	10
Vacation expense	5	8
Contract receivables	20	9
Site restoration costs	13	9
Centra Gas acquisition costs	14	12
Other	20	22
	379	314

Notes to the Consolidated Financial Statements

NOTE 12 LONG-TERM DEBT

In 2002, the Corporation arranged long-term financing in the principal amount of \$1 259 million (2001 - \$292 million) for refinancing and investing purposes. Of this amount, \$1 000 million was arranged with fixed coupon rates in the range of 4.7% to 6.6%. The remaining long-term debt of \$259 million was issued at floating rates of interest.

Long-Term Debt	2002	2001
	millions of dollars	
Advances from the Province of Manitoba represented by debenture debt of the Province	7 221	7 018
Manitoba HydroBonds	404	215
The Manitoba Hydro-Electric Board Bonds	36	76
Centra Gas Manitoba Inc. debentures	-	155
	7 661	7 464
Less: Current portion of long-term debt	524	496
	7 137	6 968

Long-term debt, excluding Manitoba Hydro-Electric Board bonds, is guaranteed by the Province of Manitoba. Debt amounts are summarized by years of maturity in the following table:

	2002					2001
	millions of Canadian dollars					
Years of Maturity	Canadian Maturities	U.S. Maturities	Total Principal Amount of Maturities	Canadian Yields	U.S. Yields	Total Principal Amount of Maturities
2003	445	79	524	7.31%	6.45%	164
2004	-	319	319	-	4.79%	158
2005	211	-	211	4.78%	-	-
2006	-	-	-	-	-	-
2007	84	239	323	5.82%	4.57%	-
	740	637	1 377	5.45%	4.68%	322
2008-2012	145	786	931	5.77%	5.63%	919
2013-2032	2 266	3 087	5 353	8.48%	7.71%	5 727
	3 151	4 510	7 661	8.36%	7.43%	6 968

U.S. debt is translated into Canadian currency at the exchange rate prevailing at the balance sheet date, \$1.00 U.S. = \$1.59 Canadian (2001 - \$1.00 U.S. = \$1.58 Canadian).

Notes to the Consolidated Financial Statements**NOTE 13 BANK BALANCES AND TEMPORARY INVESTMENTS**

	2002	2001
	millions of dollars	
Bank balances	5	(2)
Temporary investments	9	-
	14	(2)

The Corporation has a bank credit facility that provides for overdrafts and notes payable up to an amount of \$500 million denominated in Canadian and/or U.S. currency.

NOTE 14 NOTES PAYABLE

Notes payable outstanding at March 31, 2002 have terms ranging from 8 to 91 days and bear interest at the average effective rate of 2.0%.

NOTE 15 DEFERRED LIABILITIES AND CREDITS

	Note	2002	2001
		millions of dollars	
Northern development projects	19	125	164
Other employee benefits, excluding pensions		66	56
Refundable advances from customers		18	18
Decommissioning of thermal generating stations		16	15
Interest income and other credits		5	1
		230	254

NOTE 16 FOREIGN EXCHANGE CONTRACTS

As at March 31, 2002, foreign exchange contracts in the net amount of \$20 million U.S. had been purchased forward at a weighted average exchange rate of \$1.56 (2001 - \$14 million U.S. at a weighted average exchange rate of \$1.50).

Notes to the Consolidated Financial Statements

NOTE 17 FINANCIAL INSTRUMENTS

Derivative Financial Instruments

The Corporation mitigates gas price volatility to customers through the use of derivative products restricted to price swaps, call options and collars. A stringent control environment is maintained to manage risks associated with the application of derivatives. The application of derivative products is limited to those gas volumes which are certain to be required under the "warmest year" scenario and/or actual purchases for a specific month. Credit exposure is minimized by setting minimum credit rating requirements for counterparties, setting exposure limits and monitoring exposure against these limits, and when necessary, obtaining financial assurances.

The Corporation has entered into collar contracts until January 2003 to purchase 12 690 000 gigajoules of gas at a weighted average price of \$3.55. The weighted average forward price per AECO at March 31, 2002 is \$4.73. These contracts will be recorded in the month the gas is delivered.

Total derivative financial instruments that have not yet been settled constitute unrecognized financial liabilities and have an estimated fair value of \$1.4 million.

The premiums paid in regards to cap contracts of \$4 million have been deferred in prepaid expenses and are recognized in the cost of gas in the month the gas is delivered.

Fair Value

The estimated fair values of the Corporation's long-term debt and sinking fund investments are based on year-end market interest and exchange rates for similar debt and investment instruments. As at March 31, 2002, the estimated fair value of the Corporation's total long-term debt amounted to \$8 596 million (2001 - \$8 522 million). The estimated fair value of sinking fund investments which the Corporation uses for the purpose of repaying long-term debt amounted to \$1 556 million at March 31, 2002 (2001 - \$1 413 million).

The carrying values of foreign exchange contracts approximate fair value due to the relative stability of foreign exchange rates and the short period to maturity.

The carrying values of all other financial assets and liabilities approximate fair value.

Notes to the Consolidated Financial Statements

Credit Risk

Credit risk on sinking fund investments, pension assets and short-term investments is minimized as the Corporation invests exclusively in government-guaranteed bonds or other highly rated investments. The majority of the Corporation's accounts receivable are owing from domestic consumers who are in diversified industries and from sales to other utilities.

Interest Rate Risk

Interest rate risk is associated with notes payable net of temporary investments, the current portion of long-term debt net of the current portion of sinking fund investments, and floating rate long-term debt which totalled \$1 623 million at March 31, 2002 (2001 - \$1 295 million). For information purposes, an increase of 1% in the interest rate would reduce net income by \$16 million for March 31, 2002 (2001 - \$13 million).

Manitoba Hydro utilizes interest rate swaps to manage the Corporation's interest rate exposure. These swaps include blended forward interest rate swaps that have been transacted on \$2 billion of debt at blended rates ranging from 6.5% to 7.4%. The lower interest rates produced by these swap transactions reduced finance expense by approximately \$20 million in the 2002 fiscal year (2001 - \$23 million) which reflects the impacts of the cash requirements associated with these obligations.

NOTE 18 COMMITMENTS

Outstanding commitments, principally for construction, are approximately \$158 million (2001 - \$185 million).

NOTE 19 NORTHERN DEVELOPMENT PROJECTS

The Corporation is party to an agreement dated December 16, 1977, with Canada, the Province of Manitoba and the Northern Flood Committee Inc., representing the five First Nations in the communities of Cross Lake, Nelson House, Norway House, Split Lake and York Landing. This agreement, in part, provides for compensation and remedial measures necessary to ameliorate the impacts of the Churchill River Diversion and Lake Winnipeg Regulation projects. Comprehensive settlements have been reached with all communities except Cross Lake.

Expenditures incurred to mitigate the impacts of the Churchill River Diversion and Lake Winnipeg Regulation projects amounted to \$30 million during the year (2001 - \$22 million). To March 31, 2002, \$471 million (2001 - \$441 million) has been spent in mitigating and compensating the project-related impacts.

The Corporation has also entered into agreements with the Province of Manitoba whereby the Corporation has assumed obligations of the Province with respect to northern development projects. The Corporation has assumed obligations, a portion of which remains outstanding, totaling \$136 million (2001 - \$154 million) for which water power rental charges were fixed until March 31, 2001. In recognition of the anticipated payments to be incurred, the Corporation has recorded a total liability of \$125 million (2001 - \$164 million). Reassessments of these liabilities will be made as settlements are achieved. There are other mitigation issues, the outcomes of which are not determinable at this time.

Notes to the Consolidated Financial Statements

NOTE 20 SEGMENTED INFORMATION

The Corporation operates primarily in two business segments, electricity and gas. Each segment has its own particular economic characteristics and differs in nature, production processes and technology. The electricity segment encompasses the generation, transmission and distribution of electricity. The gas segment represents natural gas supply and distribution activities through the operations of Centra Gas. The following table contains information related to the operating results and assets by segment:

	Electricity		Gas		Total	
	2002	2001	2002	2001	2002	2001
	millions of dollars					
Revenue	1 385	1 269	479	504	1 864	1 773
Expenses						
Operating & administrative	258	246	46	44	304	290
Depreciation & amortization	239	227	21	22	260	249
Water rentals & assessments	113	56	-	-	113	56
Fuel & power purchased	71	48	-	-	71	48
Capital & other taxes	38	38	17	18	55	56
Cost of gas sold	-	-	365	384	365	384
Finance expense	445	387	37	33	482	420
Total expenses	1 164	1 002	486	501	1 650	1 503
Net income (loss)	221	267	(7)	3	214	270
Total assets	9 786	9 320	619	646	10 405	9 966
Cash provided from						
(used for) operations	505	461	49	(127)	554	334
Cash provided from						
(used for) financing	115	19	(15)	151	100	170
Cash used for investment	604	497	34	24	638	521

Notes to the Consolidated Financial Statements

NOTE 21 SUBSEQUENT EVENTS

a) DISTRIBUTION TO THE PROVINCE OF MANITOBA

The Government of Manitoba has introduced legislation which provides for a distribution from the retained earnings of Manitoba Hydro to the Province of Manitoba in each of the fiscal years 2002-03 and 2003-04. The amount of the distribution in 2002-03 will be equal to \$150 million plus an additional amount not to exceed 75% of net income for that year. The amount of the distribution in 2003-04 will not exceed 75% of the Corporation's net income for that year. The total distribution to the Province of Manitoba over the two-year period will not exceed \$288 million.

b) PURCHASE OF WINNIPEG HYDRO

The Corporation has entered into an agreement with the City of Winnipeg to purchase all of the net assets of Winnipeg Hydro. The consideration principally consists of annual payments to the City of Winnipeg of \$25 million per annum in years 2002 to 2006, \$20 million per annum in years 2007 to 2010, and \$16 million per annum in year 2011 and each year thereafter.

Winnipeg Hydro is an electric utility with 94 000 customers and annual revenues of \$125 million. The closing of the purchase agreement is subject to approval by the Manitoba Legislative Assembly.

NOTE 22 COMPARATIVE FIGURES

Where appropriate, comparative figures for 2001 have been reclassified in order to conform to the presentation adopted in 2002.

Financial Statistics

For the year ended March 31

2002* 2001* 2000* 1999 1998 1997 1996 1995 1994 1993

millions of dollars

Revenues

Electrical:									
Residential	314	320	300	300	299	312	301	272	271
General Service	425	415	395	400	394	388	378	358	349
Winnipeg Hydro	47	46	42	48	46	50	56	54	53
Extraprovincial	588	480	376	326	297	268	246	253	143
Other Revenue	11	8	9	6	5	6	5	5	5
Gas:									
Residential	225	240	137	-	-	-	-	-	-
Commercial/Industrial	248	259	130	-	-	-	-	-	-
Transportation	4	2	1	-	-	-	-	-	-
Other Revenue	2	3	1	-	-	-	-	-	-
	<u>1 864</u>	<u>1 773</u>	<u>1 391</u>	<u>1 080</u>	<u>1 041</u>	<u>1 024</u>	<u>986</u>	<u>942</u>	<u>821</u>

Expenses

Operating & Administrative	304	290	274	228	218	231	229	227	219	221
Depreciation & Amortization	260	249	227	198	191	178	169	160	153	139
Water Rentals & Assessments	113	56	51	50	56	51	47	45	44	46
Fuel & Power Purchased	71	48	33	59	14	13	14	10	18	7
Finance Expense	482	420	419	411	419	418	426	427	413	426
Capital & Other Taxes	55	56	53	34	32	32	31	17	6	6
Cost of Gas Sold	365	384	182	-	-	-	-	-	-	-
	<u>1 650</u>	<u>1 503</u>	<u>1 239</u>	<u>980</u>	<u>930</u>	<u>923</u>	<u>916</u>	<u>886</u>	<u>853</u>	<u>845</u>

Net Income (Loss)

	<u>214</u>	<u>270</u>	<u>152</u>	<u>100</u>	<u>111</u>	<u>101</u>	<u>70</u>	<u>56</u>	<u>70</u>	<u>(24)</u>
--	------------	------------	------------	------------	------------	------------	-----------	-----------	-----------	-------------

Assets

Capital Assets in Service	9 072	8 762	8 454	7 815	7 441	7 089	6 866	6 634	6 395	6 160
Less Accumulated Depreciation	2 834	2 609	2 407	2 217	2 054	1 899	1 778	1 638	1 502	1 374
Construction in Progress	388	275	188	176	221	274	222	173	174	197
Sinking Fund Investments	1 515	1 350	1 282	1 111	988	637	555	527	456	420
Current & Other Assets	2 264	2 188	1 175	981	1 021	1 032	872	753	1 020	622
	<u>10 405</u>	<u>9 966</u>	<u>8 692</u>	<u>7 866</u>	<u>7 617</u>	<u>7 133</u>	<u>6 737</u>	<u>6 449</u>	<u>6 543</u>	<u>6 025</u>

Liabilities and Retained Earnings

Long-Term Debt	7 137	6 968	6 611	5 883	5 548	4 246	4 767	5 011	5 158	4 858
Current & Other	1 665	1 629	988	1 050	1 242	2 241	1 486	1 025	1 044	900
Contributions in Aid of Construction	301	281	275	267	261	191	130	129	113	108
Retained Earnings	1 302	1 088	818	666	566	455	354	284	228	159
	<u>10 405</u>	<u>9 966</u>	<u>8 692</u>	<u>7 866</u>	<u>7 617</u>	<u>7 133</u>	<u>6 737</u>	<u>6 449</u>	<u>6 543</u>	<u>6 025</u>

Cash Flows

Cash Provided From Operations	554	334	374	366	297	273	265	240	232	131
Cash Provided From Financing	100	170	440	64	262	256	141	(211)	447	(291)
Cash Used For Investment in Capital Assets	439	362	330	332	248	297	271	233	270	331

Financial Indicators

Interest Coverage ¹	1.42	1.62	1.35	1.23	1.25	1.23	1.16	1.13	1.16	0.95
Debt Ratio ²	0.77	0.80	0.83	0.84	0.86	0.88	0.91	0.92	0.93	0.95

¹ Interest Coverage represents net income (loss) plus interest on debt divided by interest on debt.

² Debt Ratio represents debt (long-term debt plus notes payable minus temporary investments) divided by debt plus retained earnings plus contributions in aid of construction.

* Consolidated statistics include the operations of Centra Gas Manitoba Inc. from July 30, 1999.

Operating Statistics

For the year ended March 31

	2002*	2001*	2000*	1999	1998	1997	1996	1995	1994	1993
Integrated System										
Manitoba Hydro & Winnipeg Hydro										
Winter Capability (000 kW)	5 175	5 210	5 116	5 137	5 137	5 343	5 343	5 343	5 343	5 343
Manitoba Firm Peak Demand (000 kW)	3 760	3 637	3 524	3 559	3 490	3 409	3 588	3 268	3 514	3 404
Percentage Change	3.4	3.2	-1.0	2.0	2.4	-5.0	9.8	-7.0	3.2	0.2
Total Energy Supplied (000 000 kWh)										
Manitoba Hydro Generation	31 527	31 557	29 035	29 235	33 079	30 874	28 325	27 138	26 438	26 747
Winnipeg Hydro Generation	1 106	1 130	1 111	808	952	968	993	981	1 010	1 067
	32 633	32 687	30 146	30 043	34 031	31 842	29 318	28 119	27 448	27 814
Total Generation										
Total Metered Energy Imported from Canada and U.S.A.	968	834	870	1 225	942	1 201	1 238	1 086	1 130	970
Isolated System	10	10	9	17	28	35	33	30	28	25
Total System Supply (Integrated & Isolated)	33 611	33 531	31 025	31 285	35 001	33 078	30 589	29 235	28 606	28 809
Manitoba Load (at Generation)										
Energy Supplied for Manitoba (000 000 kWh)										
Integrated System	20 519	20 115	19 101	19 398	19 095	19 249	19 024	17 793	18 077	17 745
Isolated System	10	10	9	17	28	35	33	30	28	25
Total Manitoba Load (at Generation)	20 529	20 125	19 110	19 415	19 123	19 284	19 057	17 823	18 105	17 770
Percentage Change	2.0	5.3	-1.6	1.5	-0.8	1.2	6.9	-1.6	1.9	0.9
Manitoba Hydro System										
Electricity Sold (000 000 kWh)										
Residential	5 206	5 282	4 928	4 947	4 937	5 340	5 288	4 800	5 027	4 868
General Service	10 258	9 939	9 448	9 657	9 430	9 159	8 931	8 454	8 493	8 352
Winnipeg Hydro	1 452	1 431	1 401	1 684	1 528	1 569	1 582	1 486	1 480	1 409
Direct Customers	42	46	43	43	54	56	55	57	65	70
Total Manitoba Sales	16 958	16 698	15 820	16 331	15 949	16 124	15 856	14 797	15 065	14 699
Total Extraprovincial Sales	11 771	12 082	10 776	10 694	14 341	12 531	10 496	10 311	9 528	9 978
Total Sales	28 729	28 780	26 596	27 025	28 655	26 352	25 108	24 593	24 677	
Gas Deliveries (billions of cubic feet)										
Residential	22.8	24.7	18.7	-	-	-	-	-	-	-
Commercial/Industrial	31.7	34.4	25.6	-	-	-	-	-	-	-
Transportation	17.7	17.6	12.9	-	-	-	-	-	-	-
	72.2	76.7	57.2	-	-	-	-	-	-	-
Number of Customers										
Electric:										
Residential	355 473	353 297	352 618	349 710	345 847	343 197	340 567	338 539	335 811	333 133
General Service	50 062	49 743	49 405	49 153	48 481	48 204	48 067	47 738	47 415	47 137
	405 535	403 040	402 023	398 863	394 328	391 401	388 634	386 277	383 226	380 270
Gas:										
Residential	225 258	224 020	222 110	-	-	-	-	-	-	-
Commercial/Industrial	24 093	24 054	23 651	-	-	-	-	-	-	-
	249 351	248 074	245 761	-	-	-	-	-	-	-
Number of Employees										
Regular	3 862	3 904	3 806	3 277	3 113	3 021	3 124	3 167	3 175	3 292
Construction	899	797	866	836	868	905	859	774	869	940
	4 761	4 701	4 672	4 113	3 981	3 926	3 983	3 941	4 044	4 232

* Gas statistics include the operations of Centra Gas Manitoba Inc. from July 30, 1999.

Manitoba Hydro-Electric Board

Victor H. Schroeder, QC

Associate

Levene Tadman Barristers and Solicitors

Rod J. Beaudry

Retired Manitoba Hydro employee

Hon. Saul Cherniack, PC, CM, QC

Winnipeg, Manitoba

Charles E. Curtis, FCA

Financial Advisor to the Minister of Finance

Province of Manitoba

Phil Dorion

Executive Director

Swampy Cree Tribal Council

Ken Hildahl

Director of Operations

Manitoba Government Employees Union

Gerard Jennissen

Member of the Legislative Assembly for Flin Flon

Province of Manitoba

Garry Leach

President

Gerda M.R.M. Steel

Ken Paupanekis

Assistant Professor

Faculty of Education Brandon University

Maria den Oudsten

Director

Pandoriba

Michael Spence

Mayor of Churchill and Member of the

York Factory First Nation

Manitoba Hydro Senior Officers

Robert B. Brennan, FCA

President & Chief Executive Officer

Ken R. F. Adams

Vice-President Power Supply

Gerry W. Rose

Vice-President Customer Service & Marketing

Al M. Snyder

Vice-President Transmission & Distribution

Ken M. Tennenhouse

General Counsel & Corporate Secretary

Vince A. Warden

Vice-President Finance & Administration
& Chief Financial Officer

Corporate Profile

Manitoba Hydro is a provincial Crown Corporation providing electric energy to 405 535 customers throughout Manitoba and natural gas service to 249 351 customers in various communities throughout southern Manitoba.

We also export electricity to over 35 electric utilities and marketers in the mid-western U.S., Ontario and Saskatchewan. The Corporation has consistently been one of the top three exporting electric utilities in Canada. Revenues from exports in 2001-2002 accounted for 42 per cent of the Corporation's total revenue from electricity sales.

We offer our customers a wide range of energy services, either directly or through our subsidiaries. Manitoba Hydro is also known worldwide for its expertise in high voltage direct current transmission.

Nearly all of our electricity generated is from self-renewing waterpower. On average, about 30 billion kilowatt-hours of electricity are generated annually: 80 per cent produced by five hydroelectric generating stations on the Nelson River, 15 per cent generated at seven hydroelectric stations on the Winnipeg, Saskatchewan, and Laurie rivers, and five per cent from two thermal generating stations and four remote diesel generating stations.

Our capital assets in service at original cost exceed \$9 billion, making us one of the largest energy utilities in Canada. Headquartered in Winnipeg, Manitoba Hydro has 76 offices throughout the province to serve its customers.

The governance of the Corporation is through The Manitoba Hydro-Electric Board, whose members are appointed by the Lieutenant-Governor in Council.

Vision

To be recognized as the best utility in North America with respect to safety, rates, reliability, customer satisfaction and environmental management and to be considerate of all people with whom we have contact.

Mission

To provide for the continuance of a supply of energy adequate for the needs of the province, to promote economy and efficiency in the development, generation, transmission, distribution, supply, and end-of-use of energy, and to provide and market energy-related products and services, within and outside the province.

Goals

- Continuously improve safety in the work environment.
- Provide customers with exceptional value (rates, service, public safety, reliability and power quality).
- Be a leader in strengthening relationships with Aboriginal peoples.
- Improve corporate financial strength.
- Maximize export power net revenues.
- Have highly skilled, effective, innovative employees and a diverse workforce that reflects the demographics of Manitoba.
- Be proactive in protecting the environment and be a recognized leader in doing so.
- Be an outstanding corporate citizen.
- Proactively support agencies responsible for business development in Manitoba.

GENERATING STATIONS AND CAPABILITIES

For the
year ended
March 31, 2002

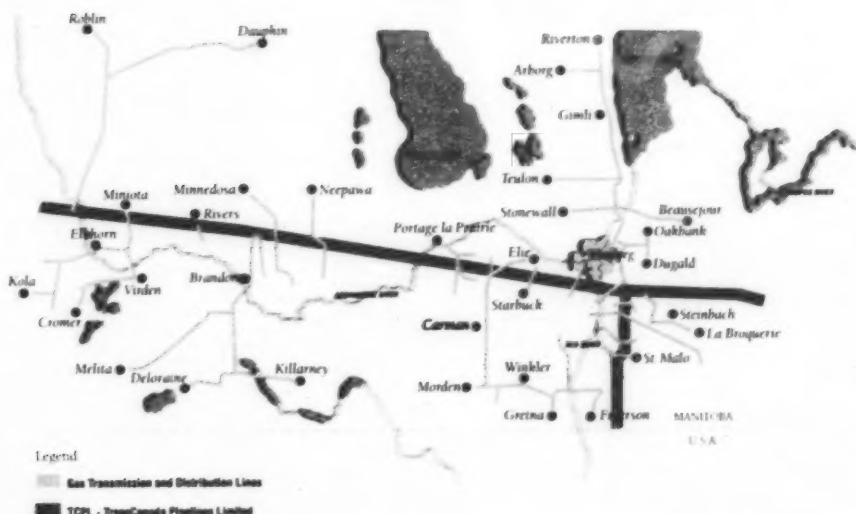
Interconnected Capabilities

Station	Location	Number of Units	Winter Capability in kilowatts
Manitoba Hydro			
Hydraulic			
Great Falls	Winnipeg River	6	130 000
Seven Sisters	Winnipeg River	6	154 000
Pine Falls	Winnipeg River	6	87 000
McArthur Falls	Winnipeg River	8	54 000
Grand Rapids	Saskatchewan River	4	472 000
Kelsey	Nelson River	7	211 000
Kettle	Nelson River	12	1 228 100
Jenpeg	Nelson River	6	97 600
Long Spruce	Nelson River	10	1 007 700
Limestone	Nelson River	10	1 347 100
Laurie River (2)	Laurie River	3	10 800
Winnipeg Hydro			
Hydraulic			
Pointe du Bois	Winnipeg River	16	75 600
Slave Falls	Winnipeg River	8	67 400
Manitoba Hydro			
Thermal			
Brandon		1	97 500
Selkirk		2	135 200
TOTAL INTERCONNECTED CAPABILITY			5 175 000

Isolated Capabilities

Manitoba Hydro	
Diesel	
Brochet	2 750
Lac Brochet	2 305
Shamattawa	3 110
Tadoule Lake	1 450
TOTAL GENERATING CAPABILITY	5 184 615

**CENTRA GAS
MANITOBA INC.
SERVICE TERRITORY
IN SOUTHERN
MANITOBA**
as at
March 31, 2002



SOURCE OF ELECTRICAL ENERGY GENERATED AND IMPORTED

Nelson River 79.15%

Billion kW.h generated	27.0
Limestone	25.83%
Kettle	24.61%
Long Spruce	20.39%
Kelsey	5.29%
Jenpeg	3.03%

Winnipeg River 13.41%

Billion kW.h generated	4.6
Manitoba Hydro	
Seven Sisters	3.74%
Great Falls	3.00%
Pine Falls	2.07%
McArthur Falls	1.35%

Winnipeg Hydro	
Pointe du Bois	1.76%
Slave Falls	1.49%

Saskatchewan River
1.61%

Billion kW.h generated	0.5
Grand Rapids	1.61%

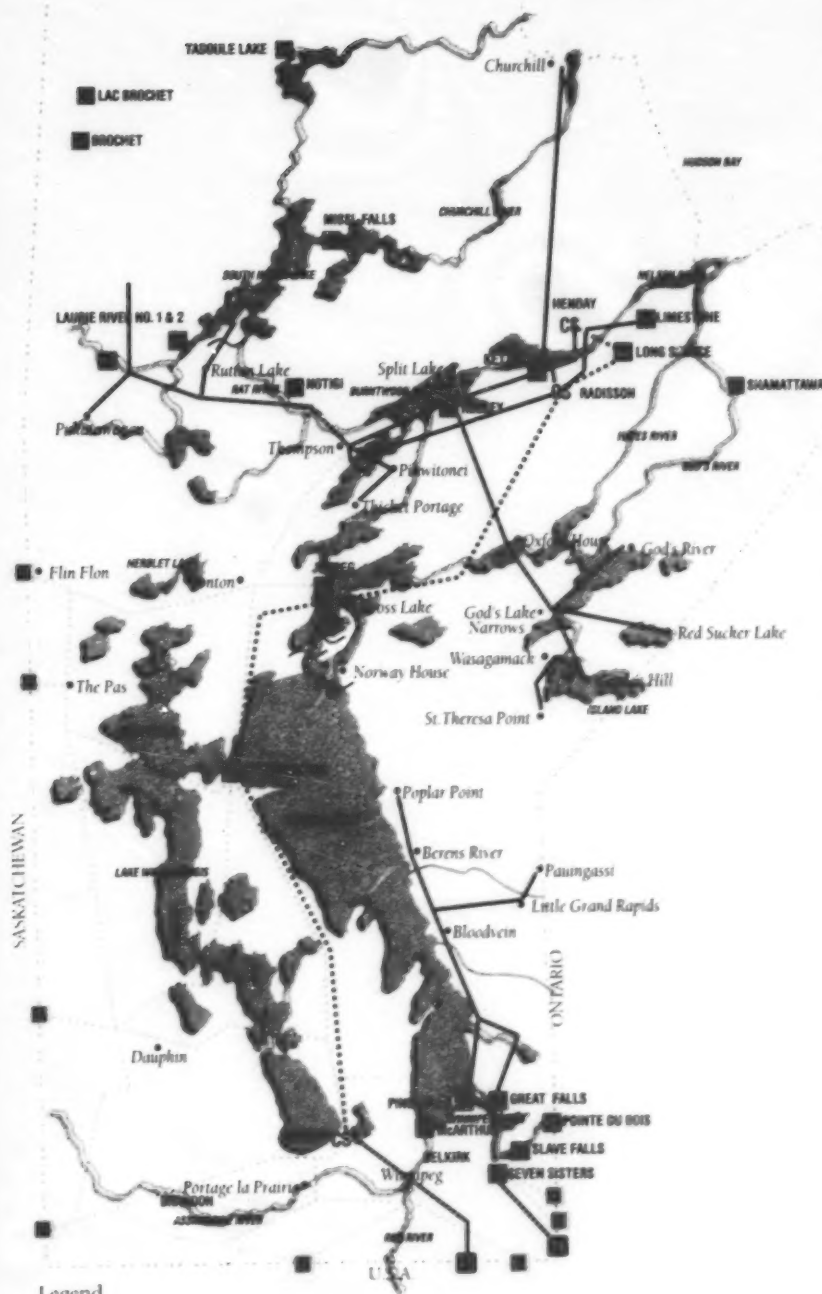
Laurie River 0.15%

Laurie River #1	0.07%
Laurie River #2	0.08%

Thermal and Imports
5.69%

Thermal –	
Billion kW.h generated	0.5
Brandon	0.95%
Selkirk	0.46%

Imports (Scheduled) –
Billion kW.h imported 1.5
Imports **4.28%**



Hydro Generating Stations
Thermal Generating Stations
Communities served by Diesel Generation
CS Converter Stations
Control Structures

-  Diversion Channels
-  Points of Power Interchange
-  Route of High Voltage D.C. Transmission Lines
-  Route of 500 000 Volt Transmission Lines
-  Route of 230 000 Volt Transmission Lines
-  Route of Other Transmission Lines

Glossary

AECO: Alberta Energy Company. The company offers market-hub services.

City gate: The point or measuring station at which a natural gas distribution utility receives gas from a transmission company. The transmission function may or may not be part of the distribution utility.

Cogeneration: The simultaneous production of electrical and thermal energy from the same fuel source. Cogeneration makes more efficient and economical use of resources than if both forms of energy were produced separately.

Demand: The size of any load, expressed in kilowatts, averaged over a specified period of time.

Distribution system: The wood poles, conductors and transformers that deliver electricity to customers. It transforms high voltages to lower, usable levels. Electricity is distributed at 120/240 volt (V) for most residential customers and 120 V to 600 V for the majority of industrial and commercial customers.

Energy: The ability to do work. Electrical utilities sell electrical energy to their customers who, in turn, convert this energy into a desirable form—such as work, heat, light or sound. It is measured in kilowatt hours (kW.h).

Generator: A machine that converts mechanical energy—such as a rotating turbine driven by water or steam or wind—into electrical energy.

Natural gas: Natural gas is a fossil fuel, made from hydrocarbons stored millions of years ago when plant and material was buried in the earth's crust. Composed mostly of methane, a colourless and non-toxic substance, natural gas creates virtually no unburned particles or smoke to pollute the atmosphere. The products of combustion are chiefly carbon dioxide and water—the same products exhaled by the human body.

Peak load: Record of maximum amount of electricity used in a given time period.

Power grid: A number of interconnecting electrical power systems which link together electrical utilities covering a large geographical area.

Transmission system: The towers and conductors that transport electricity in bulk form from a source of supply to either local areas for distribution, or to power systems of out-of-province electrical utilities. Electricity is usually transported via transmission lines in amounts ranging from 66 kV to 500 kV.

Accounting terms

Retained earnings: Net accumulated earnings that a business has not distributed to shareholders.

Sinking fund: A fund of cash and securities set up to provide for the orderly retirement of a debt.

Financial instrument: Bonds, provincial advances, short-term promissory notes, temporary and long-term investments, and swap option and foreign exchange contracts.

Swap: An agreement between two parties to exchange cash flows at predetermined rates on specified notional amounts at specified future dates.

Forward interest rate swap: An agreement between two parties to exchange predetermined fixed and floating interest rates on a specified notional amount of a principal debt or investment for a specified term beginning at a future date.

Blended forward interest rate swap: An agreement between two parties to exchange predetermined fixed and floating interest rates on a specified notional amount of a principal debt or investment for a specified term. The fixed interest rate is a bond yield calculation based on the fixed interest rate of the existing debt or investment and the fixed interest rate of the forward interest rate swap.

Foreign exchange contract: An agreement to exchange a predetermined amount of currency on a specified future date at a specified price.

Exposure Management Program: U.S. dollar hedging program used by the Corporation to offset U.S. dollar cash flows from debt, investments and net exports to eliminate the impact of fluctuations in the U.S. dollar exchange rate.

Yield: The average return of a debt or investment using a bond yield convention which recognizes the future interest payments, capital gains or losses, commissions, discounts and premiums.

Weighted average yield rate: The average return of debt or investment using the bond yield convention weighted by the remaining term to maturity.

Units of Measure

BTU: British thermal unit. The amount of energy required to raise the temperature of one pound of water one degree Fahrenheit. It works out to about 1 000 joules.

Gigawatt (GW): The unit of electrical power equivalent to one billion watts or one million kilowatts.

Gigajoule: A measure of energy of natural gas—one billion joules. One gigajoule of energy is equivalent to that provided by approximately 278 hours of electricity or 30 litres of gasoline.

Joule: A unit of energy.

Kilovolt (kV): The unit of electrical pressure, or force, equivalent to 1 000 volts (V).

Kilowatt-hour (kW.h): The unit by which electrical energy is measured. For example, 10 – 100 W light bulbs switched on for one hour would use one kilowatt-hour (1 000 W for one hour).

Megawatt (MW): The unit of electrical power equal to one million watts or 1 000 kilowatts (kW).